[AME]NDMENT TO THE FARM LOAN ACT

HEARINGS

BEFORE THE

[CO]MMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES

ON

Senate Bill 1837

TUESDAY, JUNE 7, 1921

STATEMENTS OF

Hon. Andrew W. Mellon, Secretary of the Treasury.

Hon. Charles A. Lobdell, Farm Loan Commissioner and Executive Officer, Federal Farm Loan Board.

Hon. Peter Norbeck, United States Senator from North Dakota.

Mr. J. H. Allen, President Joint Stock Land Bank, Des Moines, Iowa.

Gray Silver, Washington Representative American Farm Bureau Federation.

W. P. Powell, Secretary of the Joint Stock Land Bank Association.

E. D. Chassell, Secretary of the Farm Mortgage Bankers' Association of America.

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COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

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AMENDMENT TO THE FARM LOAN ACT.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, June 7, 1921.

The committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. In compliance with the request of the committee, we have present this morning the Secretary of the Treasury, Mr. Mellon, and Judge Lobdell and Mr. Lever, of the Farm Loan Board.

I might say at the outset that the Secretary is anxious to get through as quick as he can, and he will be rather brief this morning because he has a Cabinet meeting at 11 o'clock, and we will try and let him off.

We have up for consideration two amendments to the farm loan act, Mr. Secretary, one amending section 32, which authorizes you to increase deposits with the farm loan system from six millions to fifty millions; the other, known as the Clague bill, providing for increasing the rate on the farm loan bonds to 5½ per cent. Some of the members of the committee have a question in their mind as to the wisdom of doing either of these things and we will be glad to hear any statement you may care to make.

A BILL To amend section 32 of the act of Congress approved July 17, 1916, known as the Federal farm loan act.

Be it enacted, by the Senate and House of Representatives of the United States of America in Congress assembled, That section 32 of the Federal farm loan act, approved July 17, 1916, as amended, is hereby amended by adding after the first paragraph a new paragraph to read as follows:

"Until such time as the aggregate paid-in capital stock of the 12 Federal land banks shall be $50,000,000 or more, the Secretary of the Treasury may in his discretion make deposits in addition to those authorized by the preceding paragraph to be secured, redeemed, and paid in the same manner as provided in such paragraph, except that any additional deposit made hereunder shall be called by the Secretary of the Treasury and redeemed by the bank or banks holding the same within 15 days after the conclusion of each general offering of farm loan bonds by such bank or banks. The aggregate of such additional deposits outstanding at any time shall not exceed the difference between the aggregate paid-in capital stock of the 12 Federal land banks on the last day of the preceding month and the sum of $50,000,000. The certificates of indebtedness issued to the Secretary of the Treasury by the Federal land bank for such additional deposits shall bear a rate of interest not exceeding by more than one-half of 1 per cent per annum the rate borne by the last bond issue of the land bank receiving such deposits."

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

Secretary MELLON. In relation to the first bill, the purpose, as you know, is to amend that seetion of the Federal farm loan act which at present authorizes the Secretary of the Treasury to deposit $6,000,000 in the Federal land banks. Between the sales of farm loan

bonds it is necessary for the Federal land banks to have funds that can be used to make loans under the act. As the situation exists to-day, it requires a considerably larger amount than $6,000,000. It may not require $50,000,000, but the deposits are to be of funds that the Secretary of the Treasury may have and can use for that purpose. The deposits would be withdrawn when the bonds were sold. It is discretionary with the Secretary to make these deposits; it is not appropriating money to be lent to farmers or to be used in any way excepting to facilitate the functioning of the banks, to enable them to dispose of their bonds. The present exigency makes it desirable to keep those banks in shape to have funds on hand to make loans. So that on account of the existing situation, it would seem to me to be a desirable measure.

The CHAIRMAN. Mr. Secretary, in that connection, I note you say it is simply for temporary purposes and you indicate it will be used only during the sale or flotation of bonds, covering the period from the time they receive the mortgages from the twelve banks and the sale of these bonds?

Secretary MELLON. Yes.

The CHAIRMAN. And then the amount will be withdrawn and returned to the Treasury and, as needs require an additional issue of bonds, it will be redeposited?

Secretary MELLON. Redeposited in that way.

The CHAIRMAN. Now the farm loan system has just recently made an offer of $40,000,000 of bonds; have you been successful in disposing of them?

Secretary MELLON. The market is slow and the $40,000,000 issue has been on the market since the 18th of April. They are being gradually absorbed. I think there are about a million and a half yet unsold, or somewhere about that amount. It will take a little while yet before that block of bonds is absorbed. It would not be practicable then to put additional bonds on the market immediately and, in the interim, until another offer could be made, this deposit would enable the banks to keep going and make their mortgage loans.

The CHAIRMAN. I understand they have something like two or three hundred million dollars worth of applications on hand, and it is running in the minds of some of the members of the committee just how far and what distribution should be made of thls money at this time. With the proceeds of the sale of the 40 million now in hand, do we understand you will immediately advance an additional 50 million?

Secretary MELLON. Oh, no; the funds would be taken month by month, as the loans are made. They do not take the mortgages in any big blocks. I think the way the program would work would be somewhere about $10,000,000 or $12,000,000 of loans a month.

The CHAIRMAN. That would require you to advance that much each month, as they took up the mortgages from the banks?

Secretary MELLON. Yes.

The CHAIRMAN. And pending the sale of the bonds?

Secretary MELLON. Yes.

Mr. MACGREGOR. Does not this necessarily mean, in the final analysis, $50,000,000 that will be continuously out of the Treasury?

Secretary MELLON. No; I think that would not be so. I think it would come back into our hands.

Mr. MacGregor. But they will consider it is their particular property?

Secretary Mellon. I think they will reach a point after a time where they won't require this fund.

Mr. MacGregor. Why have they not done so heretofore? I understand they have got about $300,000,000 now.

Secretary Mellon. There seems to be a demand for money on mortgages now that is requiring a larger amount of lending.

Mr. MacGregor. What I have in my mind is why at this particular juncture they are not self-supporting, if heretofore they have been and have been doing a pretty good business?

Secretary Mellon. I suppose it is the present exigent situation in the agricultural districts, requiring a greater amount of money.

Mr. MacGregor. Why should not the Government go into the business of loaning money to people in the cities, for the construction of houses?

Secretary Mellon. Well, that is a question of policy. I think it would not be good policy. If we are going back to the broad question of policy, I believe that the policy for an organization to issue tax-free bonds for any class of borrowers is not a sound one. But the legislation has been enacted and these organizations are going concerns. If ever the situation required the aid of the Government to the Federal land banks, now is the time.

Mr. MacGregor. The point I was trying to get at is how far are we going in this paternalistic idea of Government support of the individuals?

Secretary Mellon. The Government already has established this system, the banks are functioning and request relief.

Mr. MacGregor. That is, we have embarked on it and, therefore, we should continue?

Secretary Mellon. Certainly at this time.

The Chairman. The Treasury, I understand, is still carrying approximately $183,000,000 of farm loan bonds?

Secretary Mellon. Yes.

The Chairman. Which they purchased under that authority a year and a half ago?

Secretary Mellon. Yes.

Mr. Strong. Because of the litigation in the Supreme Court, which prevented the system from functioning?

Secretary Mellon. Yes; and those bonds are in the Treasury and there is not a market for them so that they can be taken out and realized on at this time.

The Chairman. Do they bear interest at 4½ per cent?

Secretary Mellon. Some at 4½ per cent and some at 5 per cent.

Mr. Wingo. May I ask a question in line with the question of the gentleman over here [Mr. MacGregor] about paternalism? Do you regard it as any more paternalistic to deposit public funds in one fiscal agent than in another?

Secretary Mellon. I do not know that I quite caught your question.

Mr. Wingo. Do you regard it as any more paternalistic to deposit public funds in a bank organized to take care of one class of business, than it is to deposit public funds in another bank organized to take care of another class of business?

Secretary MELLON. No.

Mr. WINGO. There is really no difference in theory?

Secretary MELLON. It is the same in principle.

Mr. WINGO. The confusion is brought about due to the fact that during practically all the history of this Government we have had just one class of banks: that is, short-term commercial banks?

Secretary MELLON. Yes.

Mr. WINGO. And the Government has never seen fit, before the enactment of the farm-loan system, to establish what you might call an investment banking system under the control of the Government; but if one is proper for the public welfare it can be contended the other is proper, and if one is a proper fiscal agency the other is a proper fiscal agency. And if one should receive a deposit of public funds, the same reasons of public necessity would require it for the other, would they not?

Secretary MELLON. What is the other?

Mr. WINGO. The one is the short-term commercial banking system and the other is the investment banking system.

Secretary MELLON. Yes. But the short-term banks are private banking organizations, which we have always had. Those are commercial banks; they have nothing to do with the Government and the Government does not aid those banks.

Mr. WINGO. That is the point. The Federal land bank is a Government-controlled institution, created to take care of a certain class of investment loans that you, as a banker, know it is dangerous, from the demand deposit commercial banking standpoint, to have in the portfolio of the commercial banks?

Secretary MELLON. Yes.

Mr. WINGO. If it is perfectly proper and not paternalistic to deposit public funds in those strictly private banks and commercial banks, how can it be said to be paternalistic to deposit public funds in a Government institution, organized for the benefit of the public and controlled by the public?

Secretary MELLON. The Government does not deposit funds in these private institutions.

Mr. WINGO. It does unless you have stopped it since you became Secretary of the Treasury.

Secretary MELLON. In what way deposit?

Mr. WINGO. As a public depositary in all of the different banks.

Secretary MELLON. The Government, like individuals, has to have some place to keep money. That money is not for the bank to use for any special purpose; it is subject to call.

Mr. WINGO. It is subject to call like any other deposit?

Secretary MELLON. Like any other deposit. That is a different matter entirely.

Mr. WINGO. That is put there for the purpose of requiring that bank to discharge its duty as a fiscal agent of the Government?

Secretary MELLON. Exactly; it is to take care of the Government's checking accounts.

Mr. WINGO. In other words, it is put there for the benefit of the Government, due to the bank acting as its fiscal agent?

Secretary MELLON. That is true.

Mr. WINGO. It is conceivable for the public to have an interest in it for the public welfare, other than the discharge of those duties

as fiscal agent, is it not? In other words, the service as a fiscal agent is not the only public service that a banking institution can perform, is it?

Secretary MELLON. You mean private organizations?

Mr. WINGO. Yes; private organizations.

Secretary MELLON. They perform the usual banking function.

Mr. WINGO. I say that is not the only good they can do the Government and the public—simply to act as fiscal agents?

Secretary MELLON. No.

Mr. WINGO. Do I understand you to say it will take about $12,000,000 a month to meet the demands that are being made today on the Federal land bank system?

Secretary MELLON. I think so. But Judge Lobdell can answer those questions; he is more familiar with the working of the system.

Mr. WINGO. You have been familiar with the plans by which heretofore the Federal land bank bonds have been sold and distributed, have you not?

Secretary MELLON. Yes.

Mr. WINGO. I presume you approve of that and it has continued under your administration, I understand, without any objection?

Secretary MELLON. Yes.

The CHAIRMAN. Have these last bonds been sold through a syndicate the same as previous issues?

Secretary MELLON. Yes; I believe the same banking syndicate.

Mr. WINGO. The same syndicate; you have just continued the same old arrangement as originally made?

Secretary MELLON. I think so.

Mr. WINGO. I have not gone into that detail, but as a banker and as a business man, you think that is a good, sound, safe, and proper handling of the matter?

Secretary MELLON. Yes.

The CHAIRMAN. They were sold at par, plus the banker's commission?

Secretary MELLON. Yes.

Mr. DUNBAR. How much money has the United States Government advanced the Federal farm loan system?

Secretary MELLON. There is about $183,000,000 now in bonds held by the Treasury.

Mr. DUNBAR. What are the prospects of those being redeemed? Is that a permanent investment until the bonds fall due?

Secretary MELLON. It was intended that those bonds should be held until there was a market for them, when they would be disposed of by the Treasury; but there has not been a market.

Mr. DUNBAR. When do you think there will be a market for them?

Secretary MELLON. Not in the near future.

Mr. DUNBAR. Then if we pass this bill appropriating $50,000,000, that will be $50,000,000 in addition to the $180,000,000?

Secretary MELLON. Oh, no; that is entirely different. In making the deposits, the Treasury would not purchase bonds. The Treasury would take bonds, but only as security for the deposits, and the deposits would be merely temporary, in order to aid the banks in the interim between bond sales.

Mr. DUNBAR. And then it will be put back at intervals?

Secretary MELLON. Yes; but it is subject to call of the Secretary of the Treasury, and when they issue the next lot of bonds it will be withdrawn.

Mr. DUNBAR. It is not subject, as I understand, to the call of the Secretary of the Treasury; there is a certain period for it to run, is there not—there is a certain period in which that $50,000,000 will stay there?

Secretary MELLON. No.

The CHAIRMAN. It is only at the discretion of the Secretary of the Treasury and upon the request of the Federal Farm Loan Board, the bill says.

Mr. DUNBAR. Then if it is a matter of discretion, etc., that special deposit of $50,000,000 is likely to continue year in and year out?

Secretary MELLON. There is no reason why it should.

Mr. DUNBAR. There is no reason why it should, but it is likely to?

Secretary MELLON. It is to enable the banks to function and to keep on making loans that are necessary. They can not do that without these funds.

Mr. DUNBAR. You have expressed yourself as favorable to this measure?

Secretary MELLON. Yes.

Mr. DUNBAR. And you think it ought to pass Congress?

Secretary MELLON. I think so.

Mr. DUNBAR. Would you be in favor of aiding industries in a like manner?

Secretary MELLON. No; I would not. And when I speak of favoring this measure, it is because we have those banks; they are in existence for a purpose and without this aid they can not fulfill the object of their existence. Now that is entirely different. I do not believe that it is a sound policy of the Government to go into the banking business to this extent at all and, besides, I do not think it is sound policy to issue tax-free bonds.

Mr. DUNBAR. Your predecessor stated that between February and November, 1920, approximately $3,000,000,000, more than had been heretofore, had been loaned by the banks for commercial, industrial, and agricultural purposes. I understand 21 per cent of that went for agricultural purposes, and the fact brought out was that more money had been advanced to the farmers than ever before and the loans now to agriculture and industries are more than ever before. Can you state whether that is so or not?

Secretary MELLON. I do not understand that the Government is lending any money.

Mr. DUNBAR. This is not the Government—the financial institutions.

Secretary MELLON. Oh, the financial institutions. Well, that is the commerce of the country.

Mr. DUNBAR. You say that is the concensus of opinion of the financiers of the country that it is so?

Mr. STRONG. No, the commerce of the country.

Mr. DUNBAR. The commerce of the country?

Secretary MELLON. It is the commerce of the country.

Mr. WINGO. You did not say it is the opinion of the farmers, did you?

Mr. DUNBAR. No, it is not the opinion of the farmers.

Mr. WINGO. I thought you did and was surprised.

Mr. DUNBAR. No; the farmers believe they have been discriminated against.

Mr. WINGO. No; they know it.

Mr. DUNBAR. I want to find out if they have in the judgment of the Secretary of the Treasury. Have they?

Secretary MELLON. I do not see why. This farm loan system is a system established for the farmers. Now there has been no system established for industry generally.

Mr. DUNBAR. Then the farm loan bank is a bank organized distinctively for the promotion of agricultural enterprise?

Secretary MELLON. For the promotion of agricultural enterprise. The Federal Reserve system is merely the general banking organization of the country to function in industry generally, and the private banks, the private member banks, are the banks which do the business, which advance the money. It is not the Government's money; the Government merely has the fiscal organization for the deposit of the reserves of those banks.

Mr. DUNBAR. Now, then, if this $50,000,000 is deposited in these farm loan banks, will that appear as a disbursement item chargeable to the expenses of the Government, the same as the purchase of the farm loan bank bonds have appeared?

Secretary MELLON. No. It would be merely in the nature of a deposit.

Mr. DUNBAR. Merely in the nature of a deposit and not in the nature of a disbursement?

Secretary MELLON. Yes.

The CHAIRMAN. In that connection, the bill provides that there shall be deposited, as security for these advances, farm loan bonds or other collateral?

Secretary MELLON. Yes.

The CHAIRMAN. I understand that this last issue of $40,000,000 that were sold were secured by about $22,000,000 of farm loan mortgages and $18,000,000 of Government bonds; is that correct?

Secretary MELLON. I suppose it is. There was a proportion of Government bonds which were acquired by the Federal Land banks to enable them to provide funds to accumulate additional mortgages, as a basis for selling additional bonds, in this way: Say they had $20,000,000 on hand; they would invest that $20,000,000 in Treasury certificates and with those Treasury certificates they would borrow money from the commercial banks, as they needed it, to invest in mortgages; and when they got the mortgages, they would use them as a basis for bonds and sell bonds and that would give them the money back again. You see, that was somewhat in the nature of a revolving fund.

The CHAIRMAN. Now do I understand this $18,000,000 of Government bonds remains for all time until payment of the bonds outstanding?

Secretary MELLON. They would substitute mortgages.

The CHAIRMAN. They would substitute mortgages; they can do that and then secure the release of this $18,000,000?

Secretary MELLON. Exactly; yes.

The CHAIRMAN. In connection with the security you will exact of these banks, will it be your purpose to advance this money on the responsibility of the farm loan bonds, or will you exact Liberty bonds?

Secretary MELLON. On the responsibility of the farm loan bonds.

The CHAIRMAN. On the responsibility of the farm loan bonds. You consider that is ample security for the money advanced?

Secretary MELLON. Yes.

The CHAIRMAN. Then as they take up these mortgages, they can issue new bonds and substitute, and that will give them $18,000,000 of additional working capital?

Secretary MELLON. Yes.

Mr. STEVENSON. I would like to ask the Secretary if the interest has been paid on the farm loan bonds which the Treasury is carrying. Is the interest being paid promptly on those?

Secretary MELLON. The interest on the deposit, or do you mean on the bonds?

Mr. STEVENSON. On the bonds which you carry, the $183,000,000?

Secretary MELLON. Oh, certainly.

Mr. STEVENSON. That interest is paid?

Secretary MELLON. Oh, yes.

Mr. STEVENSON. Now in connection with the question of Mr. Dunbar a minute ago indicating this was peculiarly paternalism to the farmers and you have not taken direct action as to any other matters: Is it not a fact that the railroads at the present time owe something like $700,000,000 to the Treasury?

Secretary MELLON. Owe that money to the Treasury?

Mr. STEVENSON. Yes.

Secretary MELLON. No; they owe that to the Government.

Mr. STEVENSON. Well, the Treasury represents the fiscal arrangements of the Government.

Secretary MELLON. Those are largely unsettled accounts; that is, they have not arrived at a conclusion on the amounts in each particular case.

Mr. STEVENSON. Has not the Government made very large direct loans to them?

Secretary MELLON. Oh, yes.

Mr. STEVENSON. About how much?

Secretary MELLON. Well, there are large amounts. Here is a total of $310,000,000 of various railroad securities in the statement, and another item of $189,000,000——

Mr. STEVENSON. As a matter of fact, did not the Esch-Cummins law direct that the large indebtedness owing to the Federal Government from the railroads should be funded on such security as the President was willing to accept from the railroads?

Secretary MELLON. I believe so. I am not very familiar with it, however.

Mr. STEVENSON. On such security as they were able to give?

Secretary MELLON. Yes.

Mr. STEVENSON. While the Government was directed to pay in cash everything it owed to the railroads—was not that so?

Mr. BLACK. No; there was some of it funded and some to be paid.

Mr. STEVENSON. There was something like $200,000,000 out of $700,000,000 to be funded and the balance to be paid to them; was not that about the situation?

Secretary MELLON. Yes. I am not just familiar with the amounts, but there was a situation there where the Government, to relieve the railroads, funded certain indebtedness of the railroads to the Government.

Mr. STEVENSON. Yes. But, in addition to that, under the guaranty from March until September, is not the Government practically presenting the railroads with about a billion dollars; is it not the prospect that it will amount to about a billion dollars before they are through?

Secretary MELLON. No; I do not think the Government is presenting any money to the railroads.

Mr. STEVENSON. In carrying out its guaranty, they are giving them that?

Mr. DUNBAR. What guaranty did the Government make to the railroads?

Mr. STEVENSON. The Government guaranteed that the standard return of the railroads, as fixed on the three years preceding the taking over of the railroads, should be guaranteed to be earned by the railroads for the first six months after they were returned to the private owners; and that guaranty, the deficit below that standard return, has been run up to six or seven hundred millions, with the prospect it will be a billion before they are through.

Mr. DUNBAR. Was that bestowed under the Esch-Cummins bill?

Mr. STEVENSON. Yes, sir; it was absolutely bestowed under the Esch-Cummins bill.

Mr. DUNBAR. Was it not provided for when the Government took over the railroads?

Mr. STEVENSON. No, sir; it was not.

Mr. DUNBAR. I understood it was.

The CHAIRMAN. I want to call the committee's attention to the fact that the Secretary is anxious to get away as quickly as he can, to attend a meeting of the Cabinet.

Mr. STEVENSON. I did not want this invidious comparison to go unchallenged, that there was nobody who had ever received any special benefits out of the Government before the farmers came here asking for them.

Secretary MELLON. I think, Mr. Stevenson, you will find I used the word "industry;" and the word "industry" is not usually applied to the railroads.

Mr. Stevenson. Then I do not know what they are. I guess they must be parasites.

Secretary MELLON. And the Esch-Cummins bill, as far as I can see, contained no guaranty as far as earnings were concerned that were not guaranteed at the time the railroads were taken over by the Government.

Mr. BLACK. Oh, yes. I voted for the bill all right, but it contained a guaranty that was not made when the railroads were taken over.

Secretary MELLON. What is it?

Mr. BLACK. This six months period that the bill provided for.

Mr. LUCE. It is not yet clear in my mind whether the Secretary advises this legislation for the immediate purpose of helping the farm loan banks to function, or whether he has rather in mind the ultimate purpose of putting at the command of the agricultural sec-

tions of the country, in a time of exigency, $50,000,000 to relieve the stress of their situation?

Secretary MELLON. I should say it was for both purposes.

Mr. LUCE. Then the latter purpose has an important part in your mind?

Secretary MELLON. Yes.

Mr. LUCE. Then does it follow that it is your judgment that the farmers of the country to-day have not adequate sources of credit at their command?

Secretary MELLON. In some sections I think they are short of credit.

Mr. LUCE. I have in my hand an article, a special despatch of three columns to the Boston Transcript of the 4th of June, from Kansas City on the general business conditions of the Middle West, apparently written without prejudice and for no purpose except to report the facts.

Mr. KING. By whom was it written?

Mr. LUCE. By a special correspondent of the Transcript—a report on business conditions of the Middle West. The writer says:

> The farmer has been the favored borrower in practically every locality of the interior and seems likely to continue his position for some months.

Gov. Harding of the Federal Reserve Board, when he was before us about a week ago, having just returned from the West, said he found that about one-third of the banks in the Kansas City district were not rediscounting any paper; another third were rediscounting some, and the rest, the final third, were rediscounting a great deal. The mathematics of that appears to be that the banks of the West are not to-day using more than half of their opportunities to raise funds through the Federal reserve system. Had that fact come to your attention, Mr. Secretary?

Secretary MELLON. I think that is true, that there are a great many member banks that are not lending money. There always is that situation. Each bank has its own policy and some of them are very conservative and, at times, they do not help the situation very greatly; but that is just individual instances.

Mr. LUCE. It would appear about half the available funds in the West itself are not now being put at the command of the farmers by the banks. Under those circumstances, I wonder if you feel that the responsibility is wholly that of the Government to meet an exigency, when the banks themselves will not do it?

Secretary MELLON. Of course, some banks are not doing it, but as far as that situation exists, if you take the land banks themselves, the Federal land banks, there is a demand from the farmers for this money. They have the demand, apparently. They are selling this $40,000,000 of bonds, and the money is required by the land banks for loans to the farmers. The fact that the farmers are applying to them in greater amounts than they have had the funds to supply indicates there is a demand for these funds to supply the money.

Mr. LUCE. Possibly you do not understand my dilemma. Apparently at the present moment, with, I think, the credit capacity of the whole country reduced from the high point by something like a billion dollars——

Secretary MELLON. Yes.

Mr. LUCE (continuing). With the banks of the Middle West themselves unwilling to use more than half of their facilities, the natural inference is that the farmers are coming to the land banks, not in order to get funds which they can not get anywhere else, but for quite a different purpose—to refund mortgages already outstanding.

Secretary MELLON. That may be so to an extent.

Mr. LUCE. If that is true to a considerable extent, even, should it be the policy of the National Treasury to assume an exigency as existing which the facts do not bear out and to furnish the farmers, indirectly and ultimately, with $50,000,000 more of money, not wholly to meet the needs of the present situation, but, in part at any rate, to enable them to reduce the interest rate they are paying on existing mortgages?

Secretary MELLON. Yes; but you must not confuse the different characters of the banks and the purposes for which they have been formed. The banks generally are not to use their resources for lending on mortgages; those banks have not the authority to lend on mortgages or to lend on long time; they are commercial banks.

Mr. LUCE. May I interrupt right there, Mr. Secretary, and suggest you may have overlooked the provision of section 24 of the Federal reserve act under which at the present moment (or at least at the time of the statement of condition as of Sept. 8, 1920, in the latest report of the Comptroller of the Currency) national banks were lending on real estate mortgages $135,902,000, and at the same time banks other than national were lending on the security of farm lands $27,413,000.

Secretary MELLON. Yes.

Mr. LUCE. Now, this possibility still exists of an enormous extension by the banks themselves?

Secretary MELLON. Yes.

Mr. LUCE. So it can hardly be assumed, I think, that there is no recourse to commercial banks in a crisis of this sort.

Secretary MELLON. A great many of these banks, not the national banks, but many of the State banks, can lend on mortgages and do lend on mortgages.

Mr. LUCE. All the smaller banks?

Secretary MELLON. All the smaller banks; yes.

Mr. LUCE. Now, has another thing come to your attention, that within the past few days it is announced that the Prudential Life Insurance Co., one of the great lenders on this class of security, has reopened its doors for that purpose, with many millions of dollars available for loaning on farm lands? And the fair inference, I presume, is that the Metropolitan Life, the New York Life, and the other great insurance companies, if they have suspended temporarily that loaning, are now ready to resume. You can understand the perplexity of a Member of the House who sees himself confronted with the great life insurance companies returning to this field, with the commercial banks having something less than $165,000,000 outstanding on farms and the possibility of greatly increasing that figure, with the credit capacity of the country a billion dollars less than it was at its peak, with that report from the Transcript correspondent to the effect that the farmer has been the favored borrower, and with no evidence before us whatever that there is any farmer in the land who can not get money now—if he has the security—you can understand

the hesitancy of a Member of Congress to say an exigency exists which requires us to go back on our pledges to the people that we will take the Government out of business.

Mr. STRONG. You do not mean to say the farmer has been the favored borrower?

Mr. LUCE. I refer to what has been said by the correspondent from your own Kansas City, that the farmer has been the favored borrower in practically every locality in the interior.

Mr. STRONG. I want to say to you that the statement is not true.

Mr. LUCE. I give it to you for what it is worth.

Mr. KING. Wasn't that correspondent sent out there purposely to write that? I guess that is what really happened.

Mr. LUCE. I want the Secretary to relieve me from my dilemma under those circumstances if, as the indications are, there is plenty of available credit for the agricultural interests provided the borrower can put up good security. Why should we send $50,000,000 into the interior to be used very largely for refunding existing obligations?

Secretary MELLON. If the question before us was the desirability of establishing these land banks, I should agree with you; but you have these banks in existence, and they are there for a purpose. It was the intention of Congress to have them function in the agricultural districts to enable the farmers to obtain loans. And they are functioning in that direction, but they have not enough resources to take care of the demand. In the circumstances, my only recommendation is that, since they are in existence, the Government should see that they do function.

Mr. LUCE. I had not meant to inquire upon that branch of the topic. I meant entirely to address my inquiries to the other consideration, which is the one urged upon Congress and urged in the press, that by reason of a temporary exigency it is desirable for us to put $50,000,000 more at the command of the farming interests of the country. And I do desire to find out whether you wished to express your judgment on that basis of the inquiry, as to whether, with plenty of funds apparently at hand, with not a single shred of evidence that any farmer with security is unable to get money, we ought to put $50,000,000 more at their command for that ultimate purpose?

Secretary MELLON. The point is, these particular banks do not have plenty of money at their command, and, if they are to function, the only way to have them function is to enable them to do so by making deposits so that they can keep going on.

Mr. LUCE. With that I might agree with you perfectly, sir. My difficulty lies in the fact I come from a part of the country where there is an enormous pressure to-day for money for housing.

Secretary MELLON. Yes.

Mr. LUCE. And if I stand up on the floor of the House and with my vote yield to the pressure for funds for the agricultural district, how can I square myself with my people who want houses, who say they can not borrow the money to get them?

Mr. WINGO. It occurs to me, Mr. Chairman, possibly the Secretary of the Treasury is not interested with the political exigencies in Massachusetts or Arkansas, either one. He is discussing the public welfare and the necessity of maintaining an institution which Congress has cr[illegible]

Mr. LUCE. I respectfully suggest I have made no reference whatever to politics or political considerations.

Mr. WINGO. I understood you to say how were you going to square yourself with a certain group of your constituents.

Mr. LUCE. Not with my Republican constituents, but with all of my constituents, because I represent my entire district.

Mr. WINGO. I beg your pardon if I misunderstood you, but I thought you were referring to a class group of your constituents.

Mr. LUCE. You did misunderstand me; I was referring to all of my constituents.

Secretary MELLON. If you are asking for my views generally, they are that a policy of the Government authorizing Federal land banks and the joint stock land banks to sell tax-free bonds for the purpose of lending money to the farmers, is not sound in principle. I think it is not. But those banks are in existence; they have been authorized and if there ever was a time when their operation was required, now is the time.

Mr. LUCE. I will ask but one question more, Mr. Chairman. I would like to know if in the Secretary's judgment at the present moment there is a serious inability on the part of the farm interests of the country to secure necessary credit?

Secretary MELLON. I think in some spots they have difficulty in obtaining money.

The CHAIRMAN. Now, Mr. Secretary, just before you leave, the Washington Post, on Friday, May 20, 1921, quotes you as favoring more liberal rural credits and expansion of the present six months rediscount limit by Federal reserve banks on agricultural paper, suggesting that the ordinary farm paper be extended to nine months and cattle paper for a period of two years?

Secretary MELLON. I do not know where that came from. I am not in favor of doing anything in the way of rendering the resources of the Federal reserve system less liquid than they are. It is very necessary to have the resources of that system always, as was the intention when the Federal reserve system was established, in liquid form.

The CHAIRMAN. I judge from that, then, you would prefer to resort to trying to strengthen the farm loan system, rather than to force that paper into the Federal reserve system under the circumstances at the present time?

Secretary MELLON. I think in these circumstances there is some relief needed and here is the machinery for it. It is the logical thing to help in this way.

The CHAIRMAN. Yesterday there was an announcement by Gov. Harding of the action of the Federal Reserve Board attempting to meet this demand for farmers financing, which recommends that $50,000,000 of funds be made available through an amendment to the War Finance Corporation: Do you care to say anything as to your views on that?

Secretary MELLON. That is essential for the cattle districts which require longer time. The turnover, or development and preparing of cattle for the market takes a couple of years. They are not like other agricultural products; it takes a longer time. And there has been a congestion in those cattle districts; they have been unable to obtain money. The War Finance Corporation is an emergency

corporation which was intended in the war times to make advances to assist industries necessary or contributory to the prosecution of the war, and since the armistice to assist in financing our export trade. It seems appropriate to use that organization for the purpose suggested. The recommendation of the Federal Reserve Board was particularly to relieve the live-stock situation, because those borrowers require a longer time. It would enable this money to be lent for a period of two years. It is a measure for temporary relief. In other words, it would be limited to a period of, say, two or three years.

The CHAIRMAN. Now, Mr. Secretary, this committee has before it 19 bills proposing to give aid to the farmers of the country. There is before the Senate committee S. 1915, introduced by Mr. Norris, proposing that a $100,000,000 corporation shall be formed with funds provided by the Treasury. Do I understand that in addition to this $50,000,000, which the farm loan system will get under this plan, and, if the War Finance Corporation act is amended to permit that $50,000,000, that Congress will be called upon to the extent of fifty or a hundred million more? Would you favor an unlimited entry into the Treasury such as this?

Secretary MELLON. No. I think we have a bad precedent. I should not favor going on; I think this situation will work out; I think more can be accomplished by the banking system and I think that they are alive to the situation at present and are now endeavoring to do everything they can to help. I personally do not approve of legislation of that nature.

The CHAIRMAN. As I understand you, then, you approve of this additional power granted under this amendment to section 32, giving you the right to deposit $50,000,000 to permit the farm loan system to function properly and to take care of itself?

Secretary MELLON. To do what it was organized to do.

The CHAIRMAN. Supposing that the demands became so strong and they came back and asked the Treasury, through an amendment here, for another hundred million; to authorize the Secretary to buy another hundred million of the farm loan bonds, or they asked to have this revolving fund, or special deposit, increased to one hundred million——

Mr. STRONG. Mr. Chairman, it seems to me it is rather unfair to ask for an opinion on what may happen in the future, unless you can also portray the emergencies that would happen at that time.

The CHAIRMAN. I want to say the emergency is here, because the gentleman at the other end of the table [Mr. Wingo] has a bill pending by which he proposes to increase this fund to $100,000,000.

Mr. WINGO. I am glad if I am serving some helpful purpose.

Mr. STRONG. Why ask about something that may come in the future?

The CHAIRMAN. I am trying to get the opinion of the Secretary, whether he would favor this further extension in the future.

Secretary MELLON. No. My opinion is the full $50,000,000 would not be necessary. It is only a fund to put them in a position to accumulate mortgages; it would not stay with them for all time.

Mr. STRONG. It is a kind of a turnover proposition?

Secretary MELLON. It is a kind of a turn over proposition; it is not a revolving fund, but it is in that nature, to put them in posi-

tion to accumulate mortgages. These mortgages would be the basis for additional bonds from the proceeds of which the banks would return the deposits to the Treasury.

The CHAIRMAN. I wanted to get your opinion on this bill proposing to increase the rate to 5½ per cent on farm loan bonds: Do you favor that, or do you favor the bill giving the Federal Reserve Board authority to fix the rate without limit?

Secretary MELLON. The Farm Loan Board?

The CHAIRMAN. The Farm Loan Board; yes.

Secretary MELLON. The measure is designed particularly to relieve the joint-stock banks. The bonds of the Federal land banks have a better market than the bonds of the joint-stock banks, because the joint stock banks are private institutions. Therefore their bonds do not sell on the same basis that the Federal land bank bonds do. The joint-stock banks were authorized by law to sell their bonds with interest at the rate of 5 per cent at par, less the ordinary discount. There was not a market for the bonds and this measure raising the rate to 5½ per cent was intended to permit the marketing of their bonds. The matter came to me in an informal way, with an explanation of the situation, and it seemed at that time, just a short while ago, that possibly they could sell a 5½ per cent bond. To-day the market for those bonds is less favorable than at that time, and if they have the privilege to-day of selling a 5½ per cent bond at par I do not believe the market will take it. In other words, I do not believe that the relief that is desired, by having the rate raised one-half per cent, will be afforded. The bonds on the market to-day are being offered on a basis that will yield an investor 5½ per cent; that is, bonds that have been sold at par are selling in the market below par, so that the investor can buy them now to yield 5½ per cent.

Mr. STRONG. Do you think there is any objection to permitting them to raise to 5½ per cent? I mean is there any objection other than the fact they might not be able to sell them? Is there any objection to passing a law permitting them to increase the rate one-half per cent?

Secretary MELLON. Only to the extent of passing a law which does not accomplish the purpose for which it is intended.

Mr. STRONG. There is no other objection?

Secretary MELLON. No other objection, because it is the same in principle to sell a 5 per cent bond that is is to sell a 5½ per cent bond, and I should say if there was a market for these bonds to-day at the 5½ per cent, it would be just as reasonable to have them meet that rate as 5.

The CHAIRMAN. Under those circumstances, would you think it advisable to leave it optional with the Federal Farm Loan Board to fix the rate?

Secretary MELLON. Without limit?

The CHAIRMAN. Without limit; yes.

Secretary MELLON. Well, there is a limit. They could not go above 5½ per cent without raising their rates on loans to the farmer, and in some States that is restricted by law; so that they could not get very far, even if they had an unlimited rate.

Mr. NELSON. May I be permitted, Mr. Chairman, to ask the Secretary one or two question? In view of the statement made by Mr.

Luce, that these banks, commercial banks, in the agricultural districts have loaned so heavily upon farm mortgages, is not that one reason why they should not take on more long-time mortgage loans under the extreme exigency which to-day exists in our financial system? In other words, is it nor a matter of prudence on the part of those banks not to take on the long-time loans, but to have other agencies, such as the farm loan banks, which have the power of converting them into bonds of long-time investments, take care of these long-time loans and leave their present assets for short-time loans?

Secretary MELLON. Yes.

Mr. NELSON. And is it not true, then, that one of the primary reasons why the tremendous pressure to-day is invoked in all agricultural regions is that the deposits in country banks have been liquidated, in some instances, way down to 40 and 50 per cent, and having liquidated their short-time paper, under the pressure of the withdrawal of these deposits, they find themselves with these long-time loans in their portfolios, and can, therefore, not continue to loan any more on long-time mortgage paper?

Secretary MELLON. I should think that is so.

Mr. NELSON. That is right, is it?

Secretary MELLON. Yes.

Mr. NELSON. Then, does it not follow that the request of the Federal Farm Loan Board (of which you so heartily approve in the statement here) should be permitted, under the system that Congress has instituted, to come into the exigency which now exists and make an outlet for these long-time loans in agricultural districts to those who are willing to buy this type of long-time bonds?

Secretary MELLON. Yes; I agree with you on that, only you make the statement I heartily approve of the farm loan system.

Mr. NELSON. I will modify that. This bill has your approval.

Secretary MELLON. Yes.

Mr. WINGO. Did you state the amount of business to be met by the Federal land banks immediately and within a reasonable anticipation of the future demands?

Secretary MELLON. I think you can get that more definitely from Mr. Lobdell. He is here and he can inform you more definitely than I could on that.

Mr. WINGO. You have it in your mind, haven't you—have you gone over these figures, or not?

Secretary MELLON. I have gone over the figures.

Mr. WINGO. You say Judge Lobdell can give it and, as he is here, I can get it from him. Now there is another question: As I understand, the position you take is this, that you approve of this proposition as a business proposition of furnishing these banks with what might be termed in one sense a revolving fund, so as to make them independent in their sales of bonds in the future?

Secretary MELLON. Yes.

Mr. WINGO. So that if the market sags, they can get out of the market, and then if the market resumes, they can put the bonds on the market in a reasonable way?

Secretary MELLON. Yes; just for the purpose of holding the bonds until a time when they can sell on the market.

Mr. WINGO. In other words, to put them in an independent situation, so that they can advantageously market their bonds?

Secretary MELLON. Exactly. You understand a similar provision is now in the law which grants authority for deposits of $6,000,000. This just enlarges that authority.

Mr. WINGO. I understand. Now, do I understand you are in favor of this simply because Congress has determined the right or wrong of the policy of establishing this kind of bank?

Secretary MELLON. Yes.

Mr. WINGO. But you are opposed to this other proposal, the land banks, as an original proposal on the general proposition that the banks of the country are able to take care of the needs and you think they are willing to do it, and you want to remit these people to the banks that already exist; is that the idea?

Secretary MELLON. I think so; I think I agree with you.

Mr. WINGO. You would not be in favor of this, were it not for the fact the system was already established?

Secretary MELLON. Exactly.

Mr. DUNBAR. Are the individual national banks authorized to make loans on unencumbered farm property, by taking mortgages?

Secretary MELLON. No.

Mr. DUNBAR. What is the national bank association that is authorized to do this?

The CHAIRMAN. The Federal reserve act provides for two-year loans. Mr. Luce just read that.

Mr. DUNBAR. I know; that is the reason I ask the question.

The CHAIRMAN. It is that provision of the Federal reserve act permitting banks to loan within a radius of 100 miles of the bank, not to exceed two years.

Mr. DUNBAR. Would any national bank, then, be authorized?

The CHAIRMAN. Not to exceed 50 per cent of the value of the property.

Mr. STEVENSON. Not to exceed a certain per cent of the assets and one-third of the time deposits.

Mr. DUNBAR. Then every national bank of the United States not located in a Federal reserve city or located in a Federal reserve city is authorized to make loans secured by mortgages on unencumbered farm property?

The CHAIRMAN. Yes.

Mr. STEVENSON. But that paper is not eligible for rediscount at the Federal reserve bank.

Mr. WINGO. As a matter of fact, real estate loans are contrary to the policy of a demand deposit bank system.

The CHAIRMAN. We are very much obliged to you, Mr. Secretary.

STATEMENT OF HON. CHARLES E. LOBDELL, FARM LOAN COMMISSIONER AND EXECUTIVE OFFICER, FEDERAL FARM LOAN BOARD.

The CHAIRMAN. Now, Judge Lobdell, you have been sitting here and have heard what the line of discussion has developed. We understand, of course, that you are in favor of this bill of Mr. Nelson's to amend section 32 of the farm loan act to permit the Secretary of the Treasury to increase deposits with the farm loan system up to $50,000,000. So just suppose you go ahead in your own way and cover your reasons.

Mr. LOBDELL. That is rather a broad assignment, but I will undertake it if it will expedite the matter, rather than respond to inquiry.

I think I should preface by reiterating, as an expression of the entire Farm Loan Board, the suggestion of the Secretary that he would not favor additional appropriations or requests. The Farm Loan Board, as now constituted and as it has always been constituted, does not adopt the theory that the farm loan act was intended to be or is an institution for conveying public money to individual borrowers or loaning public money, or that public funds were intended to be loaned. We have been criticized by farm borrowers for this view, but that is our view.

With regard to this proposition, as affording the maximum of assistance that the Federal land banks ought to have to enable them to carry on a fair continuity of operation, we do regard some assistance along this line as absolutely essential to their continuous and orderly process, for the reasons that the Secretary has very well expressed. The fundamental defect is lack of sufficient capital. Experience has clearly shown that the only effective and successful method of marketing the farm loan bonds is to accumulate them in substantial volume and make a general public offering sustained by actual selling efficiency, and a volume of bonds less than $40,000,000 does not justify that effort and can not bring it out (that is ordinarily a minimum), and this sale of which the Secretary spoke is the smallest we have ever undertaken, except the initial sale, in which we discovered this defect that we could only produce at that time about $8,000,000 of bonds a month.

The capital of the banks, as you gentlemen recall, automatically increases with the volume of business done. That capital was originally $9,000,000. In the process of the business, it has grown to $24,500,000, in round numbers. That still leaves, if the entire capital were put into farm mortgages, the banks substantially short of a sufficient volume to make a practical offering. As the Secretary outlines (perhaps just a little mistaken in detail, because he does not, of course, give attention to the detail), in the present $40,000,000 offering the banks had available $18,000,000 in mortgages and Government bonds that they had accumulated under the act. They were able, therefore, to secure their own resources—in all $18,000,000 of farm loan bonds. These were created and sold and the $18,000,000 reinvested in these current Government certificates of indebtedness, and those certificates in turn were placed with the Government officer, the registrar, who is custodian of pledged securities, for a further issue that we have continued to sell.

Now, the process will be as the Secretary outlined—not to borrow, but when the banks have accumulated $250,000 of mortgages they will substitute these mortgages for $250,000 of these certificates, sell the certificates, and that gives that much money to loan, and that process is repeated until the entire holding of certificates is exhausted in farm mortgages and the banks will again have in hand, finally, such amount as their capital will provide. The purpose of the enlargement of this depositary fund is to enable the banks, as the secretary suggested, having now practically completed the sale of $40,000,000, to use this fund temporarily. The market ought not to be offered another volume of bonds before September or October. In the meantime, the banks would be out of money, the loaning

operations would come to a standstill, the appraisal force would have to be taken off of their work, unless there was some means of providing a temporary reservoir in which the bonds could be temporarily placed until again accumulated in volume.

Let me emphasize the fact this is not a fixed purchase of bonds; it is purely an increase of the deposit privilege to meet this situation, and with the sale of the bonds in September or October, or whenever the ensuing sale should occur, would be entirely refunded. And as Secretary Mellon expressed it, the necessity for this eventually passes away in the wise provision you gentlemen made for the increase of the capital. For instance, the present sale of $40,000,000 of bonds increased the capital of the banks $2,000,000 and, to that extent, makes their needs that much less between this and the following bond sale. Of course, 25 per cent of that will be applied to the retirement of the Government's stock, so that the net increase will be a million and a half—the Government's stock being automatically decreased until it is entirely retired. The general stock automatically increases and the Government's stock automatically retires.

The CHAIRMAN. In that connection, supposing your capital now was $50,000,000 more than it is?

Mr. LOBDELL. This need would entirely pass away.

The CHAIRMAN. That emergency would not exist?

Mr. LOBDELL. Would not exist, with the loaning of $200,000,000 a year, which would not respond to the demand, of course, but which is a good strong operation for the banks, that capital increases ten millions a year.

Mr. LUCE. Won't you explain how that happens?

Mr. LOBDELL. Yes. In connection with each loan, Mr. Luce, the borrower is required to subscribe 5 per cent of the loan to the stock of his local association. That local association, in turn, subscribes to a like amount of the stock of the bank, and that stock is increased 5 per cent of the amount of every loan made.

Mr. BLACK. Do you think the country will probably absorb two hundred millions a year?

Mr. LOBDELL. Of farm loan bonds?

Mr. BLACK. Yes.

Mr. LOBDELL. Of course, that is anybody's guess, but I should regard that as the maximum of absorption.

Mr. BLACK. The thought I have in mind is that ultimately there is certain to be more demands for loans than the farm system will be able to accommodate in an orderly way.

Mr. LOBDELL. That exists now, sir.

Mr. BLACK. I know it does now, but we have an emergency by reason of the delay of the Superme Court's decision. But I have an idea that, of course, the farm loan system is not going to be able to accommodate everybody with a loan who wants a loan. I am in favor of this particular proposition, but I am wondering what we will do when we reach that ultimate stage, which clearly we will reach. If we give you this revolving fund, we will again reach the point, surely, where we will be unable to accommodate all of the applications for loans, and then we will have to determine a definite policy that the farm loan banks will be able to take care of such loans as they can handle by the marketing of their own securities and no more.

Mr. LOBDELL. I think that must be. I think it should be. And, in fact, so far as the Farm Loan Board is concerned, it is a fixed policy now.

Mr. BLACK. On that same point, is my memory correct that the Farm Loan Board has recommended to Congress an increase in the present loan limit?

Mr. LOBDELL. Yes; that is true.

Mr. BLACK. Would not that merely increase the difficulty that I have in my mind?

Mr. LOBDELL. Frankly, we are very slow on that just now. That is not embodied in our last report.

Mr. BLACK. I know it is not, and I thought it was a great mistake when it was originally embodied.

Mr. LOBDELL. That is beside the question. There is a large section of the country where loans of that kind are constantly in a great deal of demand; but at a time when we are unable to procure all the funds that are needed for loans of $10,000 and less, I can not see it my duty to recommend an increase.

Mr. STEAGALL. I want to make one suggestion right there. Explain the $183,000,000, I believe it is, of bonds that are held by the Treasury now. That has nothing in the world to do with this, and it is in a different category, as I understand; and won't you explain that to the committee?

Mr. LOBDELL. You gentlemen are familiar with the contingency which, in the judgment of the administration, and no doubt properly arose in connection with our war financing, when the Treasury was authorized to purchase $200,000,000, covering two fiscal years. As you gentlemen recall, under that authorization $136,000,000 were purchased during the two fiscal years involved. During that period there was an active demand for the bonds. They were not allowed to be taken out of the Treasury. It was against the Treasury's policy, and, in fact, the Treasury would not permit it. We went into the market only twice during that period.

Mr. STEAGALL. The Treasury was selling bonds and did not want any competition?

Mr. LOBDELL. And did not want competition. They would not allow us to sell them. We went in the market in the spring of 1918 and again in the spring of 1919 and sold immediately a six months' supply. You will recall that provision that those bonds shall remain in the Treasury for at least a year after the close of the war, so that the question of a market has not arisen. Volunteering my own views—and that is beside this question, as you have suggested—I think that a percentage of each bond sale should be applied to the retirement of those bonds until they are all taken out of the Treasury or for the farm loan system to retire those in an orderly way.

Mr. LUCE. Will you address yourself to the amortization feature of the law on this question of the capital of the bank? The law allows you to make requirements for amortization up to some period not less than 5 years nor more than 40. About what is the average period required for amortization?

Mr. LOBDELL. The loans are practically made on a uniform basis of amortization at this time of 33 years.

Mr. LUCE. Thirty-three years?

Mr. LOBDELL. Yes; 66 payments, say.

Mr. LUCE. Now you have outstanding, or did as of the 30th of April, mortgage loans to the extent of $348,000,000?

Mr. LOBDELL. I thought it was rather larger than that, but that may be right.

Mr. LUCE. This is the figure in your statement of April 30, 1921. If these loans outstanding are on a basis of amortization in 33 years, you are getting an income there, are you not, of $10,000,000 a year as working capital?

Mr. LOBDELL. No; not as working capital.

Mr. LUCE. $33,000,000 is being repaid to you?

Mr. LOBDELL. Yes; but that is being repaid into the trust fund for the bonds under the retirement authority of the act. The payments on account of principal the act requires shall be placed in a trust fund and invested under the limitation of the act for the retirement of the farm-loan bonds.

Mr. LUCE. You differ, then, distinctly from the system of building and loan associations and cooperative associations?

Mr. LOBDELL. Yes; in that respect.

Mr. WINGO. How much in pending applications have you in all of the banks?

Mr. LOBDELL. I would not like to venture a guess on that, because the banks are holding them back.

Mr. WINGO. Even with them holding them back and discouraging applications, what is the volume now?

Mr. LOBDELL. In excess of $75,000,000.

Mr. WINGO. In excess of $75,000,000?

Mr. LOBDELL. Yes.

Mr. WINGO. You said something like $200,000,000 a while ago. Is that your estimate of the maximum amount of business you will permit to be done?

Mr. LOBDELL. That is my estimate, and I think perhaps it is a liberal one, of the absorbing power of the market for this character of bonds; and it is about the limit of the physical capacity of the banks unless they are enlarged and of course they are capable of enlargement, but that could not be done without obtaining money.

Mr. WINGO. You mean enlargement of the capital?

Mr. LOBDELL. Enlargement of the personnel.

Mr. WINGO. Your idea is, there are two arbitrary factors that fix the maximum of $200,000,000 a year; the first is, you think that is the ordinary maximum which you think the bond market will absorb; and, second, it would require the enlargment of the personnel of the banks if you exceeded that?

Mr. LOBDELL. Yes; but the second is not a very serious question, by any means.

Mr. WINGO. Now, have you not already in sight demands, including those that the banks have held back and have been told not to send in to you, of about $143,000,000?

Mr. LOBDELL. I would not venture to say as to that, because that is not reported to us.

Mr. WINGO. That is not reported to you?

Mr. LOBDELL. No. That is overwhelming.

Mr. WINGO. My information is it will average approximately $12,000,000 to the bank. How many banks are there?

Mr. LOBDELL. Twelve.

Mr. WINGO. That would be about $144,000,000. Now, what is the rate of interests on those bonds now held in the Treasury—$183,000,000?

Mr. LOBDELL. Four and a half and five.

Mr. WINGO. Four and a half and five?

Mr. LOBDELL. Yes.

Mr. WINGO. The ones you just issued were 5s'?

Mr. LOBDELL. Fives; yes.

Mr. WINGO. And the suggestion is to increase the authorization to five and a half, is it not—that is the suggestion that has been made by some?

Mr. LOBDELL. Yes.

Mr. WINGO. I was just trying to refresh my memory on that. Now you have sold this $40,000,000?

Mr. LOBDELL. Yes; there is a little over an million and a half remaining unsold; perhaps a million six hundred thousand remaining unsold.

Mr. WINGO. Is there any doubt if you had a proper revolving capital fund, so that you would not have to go in an emergency on the market, and by which you would only be required to go into the market at intervals when you thought the market was satisfactory from a bond standpoint, that you would be able to market 5 per cent bonds to meet your demands; that is, after you get this working fund?

Mr. LOBDELL. No man ought, of course, to guess in these times on the financial market; but, based on past experience, I should unhesitatingly say that would work out. They sold, as you recall, Mr. Wingo, the 4½ per cent bonds at par and one-half two years ago.

Mr. WINGO. I was going to ask why it is that you can not get hold of those bonds now. What is the situation now; are they actu lly in the hands of the market or offering?

Mr. LOBDELL. They are in the hands of the land banks on call.

Mr. WINGO. That is at par?

Mr. LOBDELL. At par.

Mr. WINGO. Is there any offering on the market or selling of the bonds below par that you know of?

Mr. LOBDELL. No, sir; except the old 5 per cent issue.

Mr. WINGO. That is the 5 per cent issue. What is the 4½ per cent issue selling for on the market?

Mr. LOBDELL. I have not seen the market quotation for several days, but they were selling around 94, on a 5.24 or 5.25 per cent basis.

Mr. WINGO. Was not that simply what was offered in the market? There are no bonds being sold in the market?

Mr. LOBDELL. My information is there is practically no transaction taking place in these bonds.

Mr. WINGO. That is my information from men who say while there is a suggestion of so much selling, as a matter of fact they are not able actually to buy bonds as low as the market is quoting them; and I was wondering if there was some effort to depress the market on them?

Mr. LOBDELL. I think I can answer you on that from some experience. Before making this offer of 5 per cent bonds but after the favorable decision of the Supreme Court, the outstanding fives,

which have a short call period, were quoted around 98. We had the experience you express and went into the market and bid 98⅛ and bid over the market and could not get a bond.

Mr. WINGO. And could not get them?

Mr. LOBDELL. And we pushed the market up to 99 before we got them.

Mr. WINGO. I have in mind a gentleman this morning who offered 99 for $2,000 worth and could not find them.

As I understand, you have this conception; you believe the particular function of the farm loan system is not to lend governmental funds, to act as a pipe line between the Public Treasury and the farmer, but it is purely one of agency to mobolize the farm credits of the country and to market farm credits?

Mr. LOBDELL. Exactly, to market farm credits. Our conception of the farm loan act, as applied to the Federal land bank, is that you gentlemen in Congress simply undertook to create a comprehensive system of establishing farm mortgage loan banks under the supervision and direction and control of the Government, to enable them to coordinate their scattered units of credit into a sufficient volume to float advantageously, to which you added the subsidy of tax exemption. And they must do that or else the system is a failure.

Mr. WINGO. In your judgment as a banker and one who has studied the banking system, do you doubt at all but that the system would have been able to market their bonds; in other words, to have functioned naturally and freely, if it had not been for the war coming on and the litigation brought by the private mortgage interests?

Mr. LOBDELL. Let me answer you on that, Mr. Wingo, by our experience. In the spring of 1917—of course the war was on then—the Government had just offered and sold its first offering of Government bonds and at that time we were putting the four and a halfs on the market and sold them at 101—and that at a time when the security was unseasoned and investors were unfamiliar with the type and there was a question of what kind of loans were going to be made; so that I do feel there is no question about the orderly functioning of the system up to a given volume.

Mr. WINGO. In other words, your experience as a business man and your experience as a banker and with the banking system has satisfied you the system is sound, but the war coming on, why, it made the extraordinary emergency that has arisen for which you, the board, the farmers, and nobody is responsible, and you are up against the same situation of all other institutions?

Mr. LOBDELL. I would want to qualify that just a little, Mr. Wingo. All that you say is true, and if there was not an unusual demand for money this $40,000,000 which we have accumulated would perhaps last until another sale; but the extraordinary conditions emphasize the shortage of capital.

Mr. WINGO. That extraordinary condition is brought about not only by the war, but by this condition, is it not, Judge (laying aside whether it is wise or unwise), that there has been a curtailment of credits in the agricultural sections?

Mr. LOBDELL. A curtailment of credits in the agricultural sections.

Mr. WINGO. So that the short-term demand deposit commercial banker who has been doing his best to carry those loans during this

emergency has said and is saying, in many instances, to the farmer, "You must be prepared now to get rid of this real estate loan we are carrying for you;" and aside from the farmers, the commercial banks of this country would be largely benefited by your resumption of operation and having that load of farm-land credits now in their portfolios cleaned up and taken care of in these farm loans? That extraordinary condition has caused some of the demand, has it not?

Mr. Lobdell. And it goes beyond that, Mr. Wingo, and I feel not only from the information that comes to us from the Federal land banks and the 4,000 associations, but from my personal relation with the banking business, in which I have a personal interest, that the rush of the present demand for farm-loan credit arises or comes from the cotton grower, the corn grower, the wool producer, and the cattle feeder who have gone broke in their enterprises.

The Chairman. Now, in that connection, Judge Lobdell, in the distribution of the proceeds of this loan and this revolving fund, do we understand you are going to allot that to these States that are pressing mostly for it, or will it be allotted equitably throughout all the States?

Mr. Lobdell. May I answer that in just a moment? I had not quite completed my answer to Mr. Wingo. To illustrate, the man that took, say, 100 head of steers in Iowa and paid $120 apiece for them as feeders, and fed them for five or six months on corn, cottonseed meal, and hay, and put $40 or $50 into the steer and sold him for $90 has gone broke. Now, that man pledged those cattle to the local bank; they, in turn, to the Federal reserve bank, and to the extent that those cattle realized on the market, the Federal reserve bank has been liquidated; but the farmer is involved in debt to the bank to the amount of his loss and he is anxious to put a mortgage on his clear farm to relieve the local bank. And that situation is intensely pressing, as you gentlemen from the cotton-growing States know.

Mr. Wingo. As a matter of fact, as a practical banking proposition, you have to distribute this loss over a period of years so as to relieve the present situation and relieve the farmer and put the credit of the Federal reserve bank behind the farmer.

Mr. Lobdell. Yes. Now, I will answer your question, Mr. Chairman.

The Chairman. You were speaking of the needs in certain States, and I was inquiring whether it would be the policy of the board to distribute these funds to those States or whether it would be equitably distributed throughout all of the States?

Mr. Lobdell. In the distribution of this $40,000,000, we have taken into consideration, first, the previous activities of the banks, assuming that past demands was a fair test of the present demand. Plus that, we asked the presidents of the 12 Federal land banks to each make an estimate of his needs covering the period, and we scaled that down and used the two factors to estimate approximate requirement, and then we scaled it down to what we had on a pro rata basis. The amount of the future distribution, I think, must be fairly pro rated over the country, notwithstanding some areas are more stressed.

The Chairman. What is your total allotment you propose to lend now; what are your available funds for loaning?

Mr. LOBDELL. The funds available, less loans made since the 1st of May—I have not those figures before me; they would only be reported on the 31st and they are not all in—would be the proceeds of the forty millions of bonds.

The CHAIRMAN. I see in your statement—this is the last statement I have before me——

Mr. LOBDELL. Yes; the last published statement.

The CHAIRMAN. You have cash on hand $9,400,000.

Mr. LOBDELL. Yes; but that money, Mr. Chairman, was largely accumulated for the payment of the May interest. The bond interests all mature in May and November.

The CHAIRMAN. What is the normal cash balance that you carry?

Mr. LOBDELL. In these banks?

The CHAIRMAN. Yes.

Mr. LOBDELL. Oh, it would not be in excess of $3,000,000—$250,000 in each bank.

The CHAIRMAN. So that the only funds you have available now are the proceeds of this loan of $40,000,000?

Mr. LOBDELL. Yes; that loan is all of their available money at the present time.

The CHAIRMAN. Will that sale replenish the cash in your treasury to any extent, or will you loan all of that to the farmers?

Mr. LOBDELL. That will all be loaned.

The CHAIRMAN. You can not tell us, then, offhand, what the allotment is to these different sections or States?

Mr. LOBDELL. Yes; I think I could.

The CHAIRMAN. I think the committee would be interested in knowing that.

Mr. LOBDELL. I am afraid I have not that sheet with me, but I can get it and supply it to you, Mr. Chairman. The maximum in any district was $4,000,000, and the smallest requirement was in the New England Bank, of $1,700,000.

The CHAIRMAN. How much to the Baltimore bank?

Mr. LOBDELL. My recollection is $2,500,000, but I would not be absolutely certain of that.

The CHAIRMAN. The $4,000,000 is to the Spokane bank?

Mr. LOBDELL. Spokane, Houston, Omaha, and, I think, St. Paul.

The CHAIRMAN. Now, how do you classify these demands? You say that you have $75,000,000 of approved loans.

Mr. LOBDELL. No; not of approved loans. We are not going to get caught; we got caught at one time.

The CHAIRMAN. Seventy-five million of applications?

Mr. LOBDELL. Yes.

The CHAIRMAN. How do you distinguish, then, between 75 million and 140 million or 200 million that may still be out in the local banks?

Mr. LOBDELL. There are two methods of discrimination. Briefly speaking, you have to take first come first served, except that certain types of loans are more clearly within the purposes of the act—a productive loan. A speculative loan we cast aside altogether; a refunding loan that was not being pressed we cast aside. We avoid speculative and refunding loans.

The CHAIRMAN. Do you take into consideration in your calculations the needs of the locality?

Mr. LOBDELL. Yes.

The CHAIRMAN. What other elements enter into that?

Mr. LOBDELL. The discrimination?

The CHAIRMAN. Yes.

Mr. LOBDELL. That individual discrimination is made in the banks, subject to the general policy which we determine in conference with them.

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Mr. GOLDSBOROUGH. How could that be avoided?

Mr. LOBDELL. It could be avoided by the appraising of the land at its actual present value. Now the local association of which you speak is sympathetic perhaps, and yet they are underwriters. While they are inclined to help each other's stock, they have gone very carefully, but the responsibility rests with the Federal appraiser, who is entirely removed from the local end of it, and the executive committee of the Federal land bank, whose major function is to keep safe. And then before those mortgages are pledged for bond issues they come here and pass under review of our security department. Every application and every appraiser's report is O. K'd by our office before a bond is issued against it.

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Mr. LUCE. Am I right in understanding that the original conception of this system contemplated a normal and gradual and steady growth until it reached large proportions?

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Mr. LUCE. Now, it is not clear to me what now stands in the way of that normal, steady, gradual growth.

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severely criticized about. For instance, in Iowa, where lands shot up to $400 and $500 an acre, we made a hard and fast maximum that we would not loan over $100 an acre, being 50 per cent of the prewar price. We endeavored to pursue that policy throughout the entire system. It was impressed upon the management of the Federal land banks and upon the appraisers, and the result of that shows it was pretty faithfully done. That type of borrower can not be served through the system, because he probably did not pay over a third down of his fictitious price; he has a demand that we can not meet.

Mr. GOLDSBOROUGH. How could that be avoided?

Mr. LOBDELL. It could be avoided by the appraising of the land at its actual present value. Now the local association of which you speak is sympathetic perhaps, and yet they are underwriters. While they are inclined to help each other's stock, they have gone very carefully, but the responsibility rests with the Federal appraiser, who is entirely removed from the local end of it, and the executive committee of the Federal land bank, whose major function is to keep safe. And then before those mortgages are pledged for bond issues they come here and pass under review of our security department. Every application and every appraiser's report is O. K'd by our office before a bond is issued against it.

Mr. GOLDSBOROUGH. Your explanation, if it were properly circulated, would, in my judgment, remove a great deal of the substantial opposition to this legislation—a great deal of it.

Mr. LOBDELL. Well, I am sorry that there has been any misconception of the fact. I have stated the fact exactly.

Mr. GOLDSBOROUGH. I am speaking as a friend of the legislation.

Mr. LOBDELL. Yes; I understand.

Mr. LUCE. I would like to get into the record that I am not hostile to the farm loan system, but on the other hand I am sympathetic with its purposes.

Mr. LOBDELL. We have experienced many kindnesses at your hands, I am sure.

Mr. LUCE. Am I right in understanding that the original conception of this system contemplated a normal and gradual and steady growth until it reached large proportions?

Mr. LOBDELL. That is my conception.

Mr. LUCE. Now, it is not clear to me what now stands in the way of that normal, steady, gradual growth.

Mr. LOBDELL. Well, I am afraid I have been a little obscure in what I have said. The thing that stands in the way is, first, the necessity of accumulating these bonds in substantial volume before you can market them advantageously, and the lack of capital to accumulate them in such volume. Now that will pass away, Mr. Luce, at the rate of 5 per cent of every loan made—the Government deposit will pass away—and if there was not an extraordinary demand we might get along between sales anyway.

Mr. LUCE. Won't you make it a little more clear just on that point? Why can't you advantageously market a million dollars worth of bonds, for example?

Mr. LOBDELL. Because we can not organize a sales force. It develops—a fact with which I was wholly unacquainted as a country banker—that the marketing of securities of any kind is a specialized business and has been reduced to a science, and it is in the hands of

organizations throughout the country, and you have got to get enough volume to enlist those organizations, with an active sales force behind them, to sell bonds. Every bond buyer in the country is card indexed; you no doubt are by about half a dozen investment houses, and if there is any kind of an offering, some salesman goes out after the investor, and that is the way the bonds are sold. They are sold by an intensive selling campaign.

Mr. LUCE. That is not true of the bonds of my city. My city can go into the market and put out $500,000 worth of bonds without any selling campaign.

Mr. LOBDELL. Those bonds, then, Mr. Luce, are bought in a body by the bond buyer.

Mr. FENN. What is the matter with this New York issue, then?

Mr. LOBDELL. They are bought outright, then, by the investment group, who in turn dispose of them in the same way. You answer your own question, Mr. Luce; you put them out in 500,000 blocks, and some investment house will buy those bonds and distribute them through their salesmen at an extra charge. But if your city was putting out $500,000 a day on the average as the farm loan system is, you would find it necessary to accumulate and put them out in larger blocks.

Mr. LUCE. Then you began with what struck me as a very effective argument from the point of view of a lending system, but before you got through some questions by some other gentlemen brought out the matter of the present exigency.

Mr. LOBDELL. Are there any questions I can answer you on that?

Mr. LUCE. Yes; do you think that the need for additional credit in the agricultural sections ought to be the determining factor in our action upon this bill?

Mr. LOBDELL. That is, of course, a matter of public policy, and as an administrator of this system I am aware that I may possibly be obsessed with the necessity for its continued and orderly operation. It seems to me—I know in fact—that in my 35 years of business life I have never seen such agricultural conditions as exist to-day. I have never seen such a general slump in agricultural values and prices; I have never seen agriculture as discouraged, and I speak from the viewpoint of a country banker. We are carrying agricultural customers altogether, and I know how it hurts, and that is a basic industry—that is a stale argument; you hear it all the time, but it is a basic industry nevertheless, and I would not favor the permanent investment of public funds in the relief of any industry, this or any other, but I do believe that this measure, involving merely an increase in a depository privilege which carries with it an increase of rates to protect any possible loss to the Government, is fully justified and is sound public policy and responds to a need which means just as much indirectly to the people of your city as it does to my people on the plains.

Mr. LUCE. Now, how do you meet the statement of Gov. Harding and the newspaper correspondents, and the figures I have presented indicating that there is at the present moment adequate credit at the command of agriculture?

Mr. LOBDELL. Either those gentlemen or myself are grossly mistaken. I am the principal holder in two country banks in which it is our painful duty day after day to have to decline credits to our

customers, because we have gone to the limit and have exhausted our credit at commercial centers.

Mr. LUCE. Are your banks members of the reserve system?

Mr. LOBDELL. One of them is; the other is a State bank.

Mr. LUCE. Is it rediscounting?

Mr. LOBDELL. To our permitted limit. We are in one of those districts where they penalize you beyond the limit. The Federal Reserve Bank of Kansas City is now easier, a great deal, than it was in October. The liquidation which I explained a while ago, resulting from the forced sale of product at a loss, has liquidated the Federal reserve bank, but has left the country bank's customers broke.

Mr. LUCE. Mr. Harding told us that one-third of the banks were not rediscounting at all.

Mr. LOBDELL. Well, I can not answer that.

Mr. BLACK. They couldn't use this real estate paper for rediscount because it is not eligible. You have already liquidated all the paper that they could rediscount and that has left them with nothing at all.

Mr. LOBDELL. I am amazed at the statement of Gov. Harding, but if it be true, it must be that they have exhausted their eligible paper.

Mr. STEAGALL. The Secretary said some of the banks were more conservative than others.

The CHAIRMAN. One-third of the banks in the State of Nebraska are not borrowing from the Federal reserve system at all.

Mr. LOBDELL. More than one-third of the banks in the State of Nebraska are not members of the Federal reserve system.

The CHAIRMAN. Well, more than one-third of those that are eligible.

Mr. LOBDELL. Then the answer is that they have exhausted their eligible paper. Their eligible paper was represented by cattle paper and corn paper and hog paper, and every dollar of it has involved a loss. The security has gone from behind it and they have got the shell left.

Mr. WINGO. Judge, as a country banker you know this element enters into it, that a great deal of the loans were made in the year 1920 on the basis of high market values in all business lines. Now, when a banker sees the commodity level price go down low he gets pretty conservative and he withholds credit because he is somewhat worried about the paper that is already in his portfolio and the shrinkage of values that are back of that security. The farmer is not to blame for that, and the best way to answer the contention that the farmer has adequate credit is to answer it with the statement of the fact that he hasn't got it.

Mr. LOBDELL. But I would not say that he was not somewhat to blame.

Mr. NELSON. The very fact that a great many of these country banks' paper does not go to the Federal reserve bank indicates that they are rediscounting and borrowing from their correspondents direct.

Mr. LOBDELL. Yes; I do that myself.

Mr. NELSON. And, furthermore, I called attention a moment ago to the fact that there are to-day in hundreds and hundreds of the

banks in the various States of the agricultural districts, where the banks have liquidated their deposits by calling in their liquid loans, and they are left with paper, long time in character, which is practically a frozen credit, which is not eligible at the bank whether they wanted to go there or not.

Mr. LOBDELL. That statement is true, no doubt.

The CHAIRMAN. The Secretary of the Treasury and you both have said that this is purely a temporary matter; that this money is not going to be tied up permanently in the farm-loan system. In that connection you say—the Secretary says—that it will facilitate the sale of bonds, the accumulation of the mortgages in the 12 banks, pending their final sale, and it has been intimated that there would be another sale by about the 1st of October. Now, between this time and that time you probably will have demands for the full $50,000,000 accumulation.

Mr. LOBDELL. No; I don't think so.

The CHAIRMAN. What amount?

Mr. LOBDELL. Of course, there will be demands for the full $50,000,000, and twice as much more, but without—let me repeat, the Federal farm-loan system was not intended to be, and is not, an emergency measure, and it ought not to be expected to be geared up to emergency operations—it should not be. Now, in the normal operations of the bank a million and a half a month to the bank on an average would be pretty good. Your district wouldn't reach it, and the New England district wouldn't reach it, but $18,000,000 a month would be a big production, and with the $40,000,000, of which probably $18,000,000 were loaned during May, you see that we would use on that basis somewhere from $30,000,000 to $40,000,000 of deposits before making sales.

The CHAIRMAN. Then on the 1st of October, say, you sell another issue of $40,000,000 of bonds; then you return that money to the Treasury, the entire proceeds?

Mr. LOBDELL. Yes.

The CHAIRMAN. Then you start in again.

Mr. LOBDELL. Unless the sale exceeds the deposits.

The CHAIRMAN. Then you start in and call upon the Treasury for that $18,000,000 a month until you accumulate a sufficient amount for another offering.

Mr. LOBDELL. Yes.

The CHAIRMAN. And then it is returned to the Public Treasury.

Mr. LOBDELL. If the demands still continue.

The CHAIRMAN. I am trying to see how this money is going to get back to the Public Treasury; whether it is going to get back or whether it is going to be permanently tied up in your system.

Mr. LOBDELL. At the minimum, $2,000,000 less would be liquidated each time. For instance, we used, to illustrate, $36,000,000 between now and a future sale; between that and a corresponding future sale $34,000,000 would suffice.

The CHAIRMAN. You spoke a moment ago about eventually retiring $183,000,000 in bonds which are in the Treasury; of course, your method of retiring would be to sell bonds?

Mr. LOBDELL. Yes.

The CHAIRMAN. It would not be the disposition of your board to buy those bonds back from the Treasury until you had taken care of all the applications you had on file, then?

Mr. LOBDELL. Well, I don't think, Mr. Chairman, that we ought to wait that long. Much as I should regret the disappointment, I think good faith with the Government would require a percentage reduction even if some borrowers had to wait.

The CHAIRMAN. As I understand it, there is something like five or six billion dollars' worth of farm loan mortgages in the United States?

Mr. LOBDELL. It is widely estimated. I haven't any opinion on that.

The CHAIRMAN. With the advantages that are available through the system here to the borrower, isn't it quite probable that those demands from the farmers are going to increase rather than decrease from time to time?

Mr. LOBDELL. Yes, that is a reasonable anticipation. That is already a demonstrated fact, Mr. Chairman.

The CHAIRMAN. Well, how do you figure, then, that there is going to be any easing up in the demands for ready cash in your system?

Mr. LOBDELL. I don't. I did not mean to say so; if I said so, I misquote myself. I think it is a matter of discrimination, of "first come, first served," for a good many years. Don't you, Mr. Lever?

Mr. LEVER. Yes.

The CHAIRMAN. But it is the thought of the board, of the present management, that when you get this revolving fund you can go ahead and function without coming to the Public Treasury for additional assistance?

Mr. LOBDELL. Absolutely so, sir, and under no circumstances while I am a member of the board will I ever come to the Government for any assistance.

The CHAIRMAN. You believe that with the present rates you will be able to sell those bonds from time to time to take care of the demands?

Mr. LOBDELL. I would not say—understand me clearly, the farm loan system can not absorb all the mortgages in the country in one year or in five; but I do say, I do know, as well as anyone can know an undetermined fact, that with this reservoir, this assistance in functioning orderly and normally up to the extent of $200,000,000 a year, public demand will absorb the bonds in that volume—I believe it will.

The CHAIRMAN. Now it has been estimated here variously—I don't know where it came from—you said you had accurate figures to show that there were $200,000,000 worth of applications pending now?

Mr. LOBDELL. No; they have not reached the state of pending applications.

Mr. WINGO. You misunderstood that. He estimates $200,000,000 a year was the proper maximum business to be done in the future.

The CHAIRMAN. I know it has been said around here in the committee and in different ways that there was pressing here at this time $200,000,000 worth of farm loan applications.

Mr. LOBDELL. That is very possibly true.

The CHAIRMAN. The point that I was raising here is that this looks to me, this $50,000,000, as if it was only going about 10 per cent of the way, or 20 per cent of the way, we will say, and those people that are not being taken care of by granting their loans, haven't

they a just complaint that you have picked out certain loans or certain sections and you have not taken care of all the demands?

Mr. LOBDELL. Well, that goes back to the necessary process of serving the applicants in order, and everybody understanding that fact, Mr. Chairman, subject, as I said a while ago, to discrimination.

Mr. MACGREGOR. The need would be just as great after you get the $50,000,000.

Mr. STRONG. It seems to be in the minds of some members of the committee that this $50,000,000 is going into your system to be absorbed in these loans; as I understand it, this $50,000,000 doesn't go into your system, but is to be used simply as a revolving fund, or turnover fund, to enable you to sell your bonds; when the bonds are sold the money is again returned to the Government Treasury until you again so use it; that you will never come back for any more money but will simply continue to use it as a turnover fund in the sale of your bonds. Is that correct?

Mr. LOBDELL. That is correct, and you heard the Secretary of the Treasury emphasize that.

The CHAIRMAN. They would turn the proceeds of each sale into the Treasury, the amount of the sale; and then they would call on the Public Treasury for $18,000,000 a month, as being the maximum amount which the system could handle.

Mr. STRONG. But they would never come back for any more money than this $50,000,000 to be used as a turnover fund, which would be gradually reduced.

Mr. WINGO. I suppose the Secretary of the Treasury is going to read this discussion here, and it seems to me that that line of questioning is predicated upon the assumption that Mr. Mellon is going to be very careless in exercising his discretion. I am not impressed that way with it.

The CHAIRMAN. If the gentleman is addressing the chairman, I will say this: He recalls in 1916 when we passed the Federal farm loan act, the capital which it was stated would be sufficient to run the system was $6,000,000; before we got the bill passed it was $9,000,000, and then later on we authorized the Treasury to buy $200,000,000 worth of bonds, and that was absolutely the last that was going to be needed, and now they want $183,000,000 of bonds, and here is $50,000,000 more of a revolving fund.

Mr. STRONG. You don't mean to say that they want $183,000,000 in addition to the $200,000,000 authorized?

The CHAIRMAN. The Treasury now holds $183,000,000 worth of bonds.

Mr. STRONG. But that was part of the $200,000,000 authorized?

The CHAIRMAN. Yes; I agree with that.

Mr. WINGO. But this board did not come here requesting $200,000,000; it was the Secretary of the Treasury, the bankers of the country, the men that were afraid that they couldn't put over the Victory loan and said to these gentlemen, "You have got the choice paper on the bond market, and you keep out." And there wasn't any doubt at all but that they could have sold that $200,000,000 worth of bonds—as a matter of fact, they were doing it then, and it was for the benefit of the Government Treasury and for the floating of the United States bonds and the saving of embarrassment to the Public Treasury, not to this Farm Loan Board that they held

off. Nobody can say that they had to come here as mendicants and say, "We can't market our bonds." They came here and said, "Gentlemen, we will agree that the public interest comes first; we will keep off the bond market. Let the Secretary of the Treasury take care of this. We can go on the market and sell them, but we won't do it." And if you give these gentlemen a proper working capital here they can go out and convince any cold-blooded banker in this country that there isn't any doubt but that people in the future will be grabbing for these bonds. One argument that has been made against this is that people will come and get these bonds and keep the price of Liberty bonds low.

Mr. DUNBAR. What do you think would be a proper working capital?

Mr. WINGO. I think you ought to have at least $100,000,000 in the revolving fund. That is my judgment.

Mr. STEAGALL. The record shows that they were operating so successfully that their securities were interfering in competition with the Government securities to the extent that the Secretary of the Treasury wanted to buy those bonds and keep them off the market in competition with the Government bonds, and they were doing that upon an operating capital of $6,000,000.

The CHAIRMAN. I also recollect now that the Treasury holds $183,000,000 of these bonds.

Mr. LOBDELL. You perhaps recall the provisions of the act that they were to be retained until a year after the declaration of peace.

The CHAIRMAN. Yes.

Supposing that they were demanded, that demand was made on your board to retire those bonds?

Mr. LOBDELL. That would be very painful.

The CHAIRMAN. You could not retire them?

Mr. WINGO. I see the chairman's point of view—if you will permit me—and I regret to see the chairman come to that conclusion, because if that is true with reference to the land banks, the gentleman is putting himself into the position of advocating Government ownership of railroads, because the railroads are making a great demand for relief, and if the railroads are entitled to relief on that basis and the Government has to go to their rescue, it indicates that they can not act independently in the future, which necessitates Government ownership of railroads.

The CHAIRMAN. I have not arrived at any such conclusion as that.

Mr. WINGO. I hope you won't, but I was afraid your logic would lead you to that.

The CHAIRMAN. I am trying to get into the record here the assistance that is being rendered to this system by the Government. Judge Lobdell says this is the last and final step, that this will permit the farm loan system, which in the first instance it was stated would be able to function with $6,000,000 and then with $9,000,000; now he says it will be able to function with this $50,000,000. I am trying to get some definite stopping point, and I hope that his statement is right.

Mr. WINGO. Well, you believe it is true, don't you? Your judgment as a banker tells you that it is true, doesn't it?

The CHAIRMAN. I believed them when the advocates of the bill originally said that $9,000,000 was sufficient.

Mr. WINGO. But as a practical banker you believe that if this farm loan system were given a practical working capital they would make a success of it and that the bonds would be sold?

The CHAIRMAN. There is a question in my mind as to whether under present market conditions they are going to be able to sell sufficient of these bonds to take care of demands of the farmers who are pressing for the taking over of their mortgages.

Mr. WINGO. That is the present condition. That is true, of course, with reference to present conditions.

The CHAIRMAN. That is a serious question, and I am not sure but that the demands may be so great from the farmers that it may be necessary for the Public Treasury to go back and buy more bonds. That is what I am trying to find out, as to whether or not, in the minds of these men who are versed and who have these facts before them, if the amount of these applications that are pending are so great that they can not be taken care of here. It seems to me that this, as was expressed to me quite recently, is like spitting on a hot stove, to authorize $50,000,000 here when there are $200,000,000 worth or $250,000,000 worth of mortgages that are pressing to be taken over. In other words, it seems to me that what the Government should consider at this time is the taking care of this situation wholly by an appropriation of, say $250,000,000.

Mr. WINGO. I agree with the gentleman there.

The CHAIRMAN. Instead of taking care of the system in dribs from time to time. We are committed to it, and it seems to me that it is not fair to take care of 2,000 applicants alone and leave 10,000 others out in the cold.

Mr. WINGO. I think you are right about that. I think we ought not to take two or three bites at the cherry, but we ought to take one bite and finish it all at once.

The CHAIRMAN. I don't want gentlemen to get the idea in their minds that I am opposed to the farm loan system, but I am opposed to continuing the Government in business by appropriating to all these funds. I am opposed to donating money to railroads in loans, just as much as I am this. If I could feel sure that this $50,000,000 was going to make this system function without any further assistance, I would say "Amen" to it. I am not convinced of that.

Mr. STRONG. What argument have you that it will not, when the chairman of the board thinks it will? What leads you to believe that he is mistaken?

The CHAIRMAN. We are in an 8 per cent money market at present, and these loans are confined to not to exceed 5½ per cent. I don't know whether they are going to be able to sell them at that rate or not. They have just sold $40,000,000 worth, and it has been quite a struggle to sell that $40,000,000, I believe.

Mr. LOBDELL. There has been a very adverse market, Mr. Chairman We had to contend first with the offering of $230,000,000. The Burlington and Great Northern 6½ came about a week after we started then there was the French loan of $100,000,000, and a lot of little things, relatively little things drifting in.

The CHAIRMAN. Have you ever considered, judge, the question of raising the rate on mortgages to 6 per cent?

Mr. LOBDELL. Yes.

The CHAIRMAN. I mean to 7 per cent, say?

Mr. LOBDELL. That comes in conflict with a very great many State laws. If there were no other reason, that would render it inoperative in a large number of States.

I was going to say in response to your suggestion, Mr. Chairman—I seemed to fail to make myself clear—I don't believe, and I am sure my associates do not, that $50,000,000, even if it were invested in capital, would meet the entire immediate demands for farm credits throughout the country. I don't believe that the farm loan system can respond to the entire demands throughout the country. I think that the proper contemplation of the farm loan system is that it is merely to help these farmers by the financing through the sale of all the bonds that the market will take. I don't believe that it is the contemplation of the Government, and personally I don't believe that it is sound governmental policy, to undertake to loan the farmers all the money they want any more than it is any other enterprise. But I do believe, as I think I said a moment ago, that it will permit the steady, orderly operation and the production of bonds as fast as the market will take them.

Mr. NELSON. You agree with the statement that the Secretary of the Treasury made, that this is not an expenditure appropriation, but merely a temporary loan from the Treasury to the Federal land banks?

Mr. LOBDELL. Absolutely so. I know of no other public depository that is limited in the amount which you may deposit in it.

Mr. NELSON. Is it your judgment that possibly half of the year these bonds would be purchased and remain in [illegible] rather than be deposited in the banks?

Mr. LOBDELL. Well, that probably would be approximate, yes—anticipating four bond sales a year, just about.

Mr. NELSON. And from what you have said, is it not true that the $50,000,000, plus your capital stock, under present conditions is all that is absolutely possible for you to operate with under the market conditions of bonds as they are now?

Mr. LOBDELL. I repeat that will produce bonds in such volume as the market will take them.

Mr. NELSON. Would it not follow naturally in answer to several inquiries that have been raised here that the $50,000,000 is sufficient, and that any appropriation of $150,000,000 or $200,000,000 is really unnecessary to contemplate now?

Mr. LOBDELL. Well, that would be simply an investment by the Government in a loan. The amount of money suggested is ample to permit, let me repeat it again, the orderly operation of the system and the production of bonds in sufficient volume for marketing as fast as the market will take them, if it is $50,000,000 a year.

The CHAIRMAN. Judge, this $50,000,000 loan, together with your capital of $24,500,000, would give you approximately $75,000,000 working capital.

Mr. LOBDELL. Yes.

The CHAIRMAN. Now, this $15,000,000 of Government certificates of indebtedness that you have, should that be added to that?

Mr. LOBDELL. Oh, no; farm loan bonds have been issued against those certificates and the only use we can make of that is to substitute a mortgage for the certificate and take the certificate down and sell it. No; that should not be added.

The CHAIRMAN. Your investment in those is confined to certificates of indebtedness?

Mr. LOBDELL. Yes; various recent issues.

The CHAIRMAN. You haven't got any Liberty loan bonds?

Mr. LOBDELL. No; the banks have some Libertys, but when they put them up, they put them up at the market and not at par.

Mr. MACGREGOR. Is this paper held by these banks represented by stocks on hand that the farmers are holding for better prices?

Mr. LOBDELL. The paper held by the commercial banks?

Mr. MACGREGOR. Yes.

Mr. LOBDELL. Well, I only know—you don't mean Federal land banks?

Mr. MACGREGOR. No. You say these western banks here, these farmer banks, commercial banks, that they are in bad shape because they can not realize on the paper that they have; is that paper represented by stuff that the farmers are holding?

Mr. LOBDELL. No; it is represented by the leave over after the farmers unloaded at shrunken values.

Mr. STRONG. His losses, in other words?

Mr. LOBDELL. It represents his losses.

Mr. MACGREGOR. His losses?

Mr. STRONG. It represents the loss imposed upon him by the restriction of credits.

Mr. MACGREGOR. He made a lot of money in the flush times.

Mr. LOBDELL. Yes.

Mr. MACGREGOR. In the State of Iowa they have more automobiles per capita than in any other State in the Union.

Mr. LOBDELL. Yes, sir.

Mr. STRONG. You want some information about the farmer's present condition and situation.

Mr. MACGREGOR. That is what I am trying to get. The idea of the farmer being poverty stricken does not reach us.

Mr. STRONG. Well, you know that the farmer had 60 or 70 cents a bushel taken off of his grain in order to let your people have cheap flour when the war started, and you know that he had a price set on it all during the war, and on his hogs also, in order that your people might have cheap food while the farmer paid outrageous prices for implements and wagons and everything that your people manufacture.

Mr. MACGREGOR. They seemed to be able to buy them.

The CHAIRMAN. Before you leave, Mr. Lobdell, I want to ask you in regard to the Clague bill, which fixes the rate at 5½ per cent, and also in regard to Senate bill 1811, which leaves the rate open for the Federal Farm Loan Board to fix.

Mr. NELSON. Before you do that, Mr. Chairman, if you will permit me, I ask unanimous consent to file a statement here.

The CHAIRMAN. Mr. Nelson asks unanimous consent to file a statement. If there is no objection it will be filed at this point.

(The paper referred to follows:)

STATEMENT OF HON. A. P. NELSON, REPRESENTATIVE IN CONGRESS FROM THE ELEVENTH DISTRICT OF WISCONSIN.

Mr. Chairman and gentlemen of the committee, I have been led to introduce bill H. R. 6296, which is identical with Senate bill 1837, introduced in the Senate by Senator Curtis, of Kansas, because I believe that there is to-day an emergency in the agricultural regions of our country that must be met by legislation of this character.

This is a bill to amend section 32 of the act of Congress approved July 17, 1916, known as "The Federal farm loan act." It is a bill which I think should be passed by Congress at this session without fail. As you all know, the Senate Committee on Banking and Currency unanimously reported out Senate bill 1837 with recommendation that it pass, and that the Senate, on June 2, passed the bill. This bill has the approval and support of the Secretary of the Treasury, Hon. A. W. Mellon, and the unqualified support and approval of the Federal Farm Loan Board, as well as of farm organizations of the country and a large proportion of the business interests in our agricultural centers, as well as a large number of country banks, who feel that, under the present conditions, this legislation is not only necessary but it is absolutely demanded in order to overcome what is a very serious financial situation in our country districts.

President Harding in his speech in New York on May 23, as reported by the New York Herald, stated: "We will do well to keep in mind the fundamental importance of agriculture and in every possible way insure justice to it; to place our agricultural industry on a sound basis and provide machinery and facilities for financing and distributing crops." The Washington Post under date of June 4 states that trade is reviving, and states that it was reported that the industrial improvement has progressed much faster than the agricultural improvement, and for this reason much attention will be given to relief for agricultural producers. In the face of all this support and approval, coming from the President, from the Cabinet, from the Treasury, from the Banking and Currency Committee of the Senate, and from the passage of the bill in the Senate, it does seem to me that this committee can not take the responsibility of not passing this bill, and I appeal to the committee in behalf of the best interest of the country to recommend this bill for passage and permit the House to take the responsibility of either passing or rejecting the bill.

This bill will facilitate the continued growth and advancement of one of the basic industries of our country, that of farming, and thus aid the continuous operation of our factories and industries in the large cities, because there is no question in the minds of the best students of our economic conditions to-day that the agricultural interests are in a very serious situation because of the tremendous fall in prices of all farm products and because of the tremendous freight charges which make it almost prohibitive to transport the products from the farm to the markets and the almost absolute inability in large sections of the country districts to obtain credit from local banks. Indeed, the agricultural regions, South, West, and Central West, are in a condition that must be relieved through the aid of long time loans on farm properties as provided for under the Federal farm loan act.

I realize that a great many believe, and in this I share, that in all industries our policy should be to keep the Government out of private business as far as possible, and yet, it is quite evident that the Government must, in come cases, as during the war, and in the awful aftermath after the war, aid in some critical instances, and, as has been suggested by the President, we must do our best to aid agriculture to be put on a sound basis.

I think we all agree that, so far as our financial industrial, and agricultural conditions are concerned, we are probably, at this moment, in a much worse condition than we were during the war when credit was abundant because of the war financing, and it is necessary for us now to conserve in every way possible, and yet to aid in every way possible and to cooperate in every way possible, in order that we shall be able to carry out not only proper production, but also proper distribution of our products, both of the farm and factory. As I view it, it is the duty of the Government, at this time, to see that this measure in aid of one of the basic industries of our country is passed, and to enable the machinery, under the farm loan act, to function in the most efficient manner possible.

In the passage of this bill, it should be distinctly understood that the Farm Loan Bureau is absolutely and unequivocally opposed to any increase in the amount stated in the bill, and it should be understood by this committee and by the House that it should have no further relief in the way of advancement of loans from the Treasury, and that the amount advanced under the provisions of this bill is sufficient in every way to enable the Federal land banks to accumulate mortgages in sufficient quantities to make a proper bond sale, and then to return the money again to the Treasury, and then to have a redeposit by the Treasury of the $50,000,000 and again buy mortgages and place them on the market for another bond sale, and to repeat this process from time to time as may be necessary in order to facilitate the proper functioning of the Federal land banks to meet the rural credit demands.

PROVISIONS OF THE BILL.

Section 32 of the Federal farm loan act authorizes the Secretary of the Treasury, in his discretion, upon the request of the Federal Farm Loan Board to make deposits for the temporary use of any Federal land bank, out of any money in the Treasury not otherwise appropriated, and requires that the Federal land bank in which such deposit is made shall issue to the Secretary of the Treasury a certificate of indebtedness for such deposit to be secured by farm loan bonds or other collateral satisfactory to the Secretary, bearing a rate of interest not to exceed the current rate charged for other Government deposits, and the aggregate of all sums so deposited by the Secretary of the Treasury shall not exceed the sum of $6,000,000 at any one time. Now, this bill amends this section in at least two respects, (1) the certificate of indebtedness shall bear a rate of interest not exceeding by more than one-half of 1 per cent per annum the rate borne by the last bond issue of the bank receiving such deposit. The bond rate under the present law can not exceed 5 per cent and under the pending bill the interest rate of the certificate of indebtedness might be 5½ per cent. The purpose of this provision is to reduce the incentive for seeking the privileges of this section except in cases of absolute necessity for continued loaning operations, and to protect the Government against any financial loss, and this necessity will steadily decrease as the capital stock of the banks increase and will eventually cease entirely and (2) the amount that may be deposited at any one time with the banks is increased from $6,000,000 to $50,000,000, or an actual increase over the old amount permitted of $44,000,000.

It is the view of the Farm Loan Board, concurred in by the Secretary of the Treasury, as you will observe from letters addressed to Senator George P. McLean, chairman of the Committee on Banking and Currency of the Senate, and to me personally, hereto attached, that the initial capital of the banks, $9,000,000, was entirely inadequate to enable the continued loaning operations. The amount of $6,000,000, which may now be deposited is insufficient to cure this fundamental defect in the original act, nor has that defect as yet been overcome by the normal increase of the capital stock of the banks, through the purchase of stock therein by national farm loan associations. The Farm Loan Board is in full accord with Secretary Mellon that it has never been the thought of Congress that the Government should engage in farm loan business, but it was the expectation of Congress that the Farm loan system should function continuously and, as nearly as possible, meet the normal long-term credit demands of the farmers.

DEFECTS IN THE PRESENT LAW.

The total capital stock of the Federal land banks at this time is a little over $24,000,000, of which the Government owns $6,700,675. This makes continuous functioning of the banks impossible, and to obviate the interruption of continuous loaning, the bill proposes to increase the deposit privileges of the banks so as to enable them to accumulate a sufficient amount of real estate mortgages to be offered for a bond sale that will really make a bond offering that can be handled in a businesslike way and sold at the best advantage in the market, and that is the purpose of the increase in the amount that may be deposited by the Treasury in the Federal land banks.

On April 13, last, the Federal land banks, through the Farm Loan Board made an offering of $40,000,000 of farm loan bonds. This offering, I am informed, is now practically absorbed, thus making available for loaning purposes to the farmers $40,000,000. The machinery of the 12 Federal land banks is capable of distributing this amount, I am told, by July 15, But, I want to call the attention of the committee to the fact that those familiar with bond business all agree that it is very doubtful that within six weeks the investing public would again support an offering of farm loan bonds. It is certain that they would not absorb such an offering in any considerable amount. The provision, therefore, in this bill would carry the banks over until such a time as the investing public would again be ready to purchase these Federal land bank bonds. The object, therefore, of this bill is to make it possible for the Federal land bank system to loan continuously and uninterruptedly to the farmers upon well selected and approved securities, changing these into bonds from time to time when $50,000,000 or $60,000,000, or $70,000,000 in farm mortgages have been accumulated, and then distribute the proceeds of the bonds to the farmers in lieu of the mortgages taken and to continue this process just as often as the bond market will permit.

THE FARMERS' DISTRESSED CONDITION.

In the very distressed condition of agriculture, with foreclosures threatened in every section of the country, with loan agencies reaping a harvest in maximum interest rates and exorbitant commissions, and with the large number of country banks threatened with dissolution unless there can be some outlet for their long time credits to the farmers, and in view of the necessity of making the farmers purchasers of the manufactured products, so as to make the wheels of industry and commerce operate for the benefit of the laborers in industrial centers, it would seem to me the part of wisdom to pass this bill and correct a fundamental defect in our organic act in not providing sufficient capital in the beginning for its proper functioning and thus meet the emergency which to-day exists in one of the basic industries of our country.

SOME OBJECTIONS RAISED AGAINST THE BILL.

The objection has been raised against this bill that the bonds are tax-exempt, and that we should not increase tax-exempt securities. Let me say in respect to this that I fully agree with these critics, and am ready immediately to vote to eradicate all future issues of tax-free securities of any and all kinds, but this raises a very fundamental question of the constitutional rights of the States, and we all agree that we do not have any right to make any such restrictions without an amendment to the Constitution. Therefore, I think it is not a good argument nor a sound argument to raise against the small percentage of 2½ per cent of the total amount of tax-exempt securities given by this sytem to the farmers, and permit the flood of tax-exempt securities by the various States, counties, cities, municipalities, and organizations of a public nature, all over the country, to issue tax-free securities. We are told that there are about 16 billions of tax-exempt securities floating in this country to-day, and all increasing by a billion dollars every year, whereas the total amount of farm loan bonds, both joint stock and Federal land banks, amount approximately to $427,000,000. Therefore, it does not seem to me that the argument lies with any weight against the continuation on the part of the Federal farm loan system to sell tax-exempt bonds when we need to aid and encourage this basic industry and turn the tide from the city to the farm.

I appreciate the very severe conditions which also exist in the industrial centers, but I desire to call the attention of the committee to this fact, that the manufacturer in the city will have to close the factories and labor go idle, if the farmers of the country, who are the purchasers of at least 50 per cent of the manufactured products of the country, are unable to buy these products, because of lack of proper credits. Indeed, the aid to the farmer means the correlated aid of every other basic industry in our country, and when we understand that the manufacturing and industrial concerns in the big centers have the advantages of the Federal reserve banks in the way of aid and assistance, which they can use now to the utmost degree, according to the statement before this committee the other day by Gov. Harding of the Federal Reserve Board, we should provide similar aid for the farmer through the proper and continuous functioning of the Federal farm loan system. It is my belief that one of the best aids to the agricultural, industrial, and commercial progress in our country was put into action when the Federal reserve bank and Federal land bank systems were put into operation. Had it not been for the Federal reserve bank system, superseding the old archaic system of banking, it is doubtful whether we could have weathered the storm of the recent war. I want to call your attention to the fact that the Federal land bank system is no innovation. It is based upon the conservative report of the joint committee of the House and Senate after thorough investigation in Europe in the oldest and best financed countries there, where Government land banks have operated to the entire satisfaction of those countries for hundreds of years. It is our duty to enable this system to continuously and uninterruptedly make loans to the farmers and to relieve the tremendous distress and economic pressure which to-day are found in every one of the agricultural regions and which reflect themselves into the industrial centers.

FEATURES OF THE BILL.

This bill, as stated to me by the Secretary of the Treasury, in private conversation, is safeguarded in every way so that there can be no loss to the Government, and, with the penalty which the banks must pay to the United States Treasury of one-half of 1 per cent upon the deposits, makes no incentive to inflation.

There is no question from the large number of bills introduced both in the House and Senate that a real emergency exists and that the great distress must be relieved. I believe that this bill is a sane, economic, safe, and judicious measure, and by its provisions does not impose a cent of tax on the already overburdened taxpayer. I

desire to emphasize the statement of the Farm Loan Board that this must be the maximum of relief offered to them, and that not a dollar more must be asked by them, and that if the Farm Loan Board can not function with this aid, then, I think it is just as well that the farm loan banks admit that they are a failure and that they be immediately liquidated. But it is the belief both of the Treasury and of the Farm Loan Board and all experts in the Federal land banks that this will enable them to function and to render relief and to make the banks a success.

There can be no risk or loss to the Treasury. There can be no risk to the Government in passing this bill because the Government is absolutely protected, and back of the certificates of indebtedness that they put up in the Treasury the Treasury requires good and sufficient collateral from the banks to be deposited as security. There can be no loss because the Treasury receives the market rate of interest upon bonds, which in this case would be 5½ per cent. As soon as the markets become easy and the Federal land banks grow sufficiently in volume to have their own capital increased, which in 10 years will probably amount to $75,000,000 of capital, they can function without any further help from the Treasury.

I say, in view of all these facts, it does seem to me that no valid objection can be raised against the passage of this bill. Those who object to the Government doing anything in a special way should remember that this system is already inaugurated. We are now responsible for it, and we should either remove it altogether or else make it function. Nothing can be more pitiful than to put a system in operation that has not the proper facilities to make success possible, and so far as Government aid is concerned there is ample precedent in every conceivable way in the past, and we need have no hesitancy on the ground of aid by the Government, because the Government has rendered aid in the past to innumerable projects, such as has been given to railroads, reclamation projects, tariffs, etc.

TREASURY DEPARTMENT,
FEDERAL FARM LOAN BUREAU,
Washington, May 26, 1921.

DEAR CONGRESSMAN NELSON: In reply to your inquiry as to the views of the Farm Loan Board in reference to your bill, No. 6296, amending section 32 of the Federal farm-loan act, permit me to state that the views of the board are expressed very well indeed, in letter from the Secretary of the Treasury, written on the 19th instant to Senator George P. McLean, chairman of the Senate Committee on Banking and Currency, in reference to Senate bill No. 1837, which is identical with your bill 6296.

The experience of four years has fully demonstrated that the most practical and efficient way to market farm loan bonds is to accumulate them in substantial volume and then make a general offering. The limited capital of the Federal land banks makes it impossible to accumulate a sufficient number of farm mortgages to serve as basis for a bond issue sufficient in amount for a general offering. In the offering of $40,000,000 which has just been made, the Federal land banks have had to have recourse to the purchase of certificates of indebtedness of the Government, which have been used as security for the major portion of the bonds sold. These certificates of indebtedness are held by the registrars of the several banks, and as the land banks accumulate mortgages in the sum of $250,000 they will substitute such mortgages for a like amount of certificates, sell the certificates, and reloan the money, repeating the process until the certificates have all been sold and the proceeds of the bond sale entirely absorbed in mortgages.

The offering April 18 was $40,000,000 and is still a little short of complete sale. This would indicate that a larger offering would have been unsuccessful. Such an offering should not be repeated for at least three or four months. The proceeds of this sale should ordinarily, as per past experience, be equal to the demand of 90 days' loaning activity, but owing to the large accumulation of applications while the loaning operations of the banks were halted by litigation and the unusual demand for agricultural credit at this time, this sum will be made use of in much shorter time. There exists, therefore, the need of this fund for the accumulation of mortgages in sufficient volume for a further sale, and it is also needed to permit the continued loaning operations of the banks until such time as another offering can reasonably be made.

If it had not been for the possibility of obtaining these temporary certificates of indebtedness of the Government, this offering of $40,000,000 could not have been made, and of course the issuance of such certificates is hardly contemplated as a permanent policy of the Government. This amendment to section 32 does not do vio-

ence to any principle of the farm loan act, but merely enlarges the privilege already existing. The board not only entirely approves your measure, but urgently recommends its passage as essential to the continued and orderly process of the loaning and bond selling operations of the Federal land banks.

Respectfully, yours,

CHARLES E. LOBDELL,
Farm Loan Commissioner.

Hon. A. P. NELSON,
House of Representatives.

THE SECRETARY OF THE TREASURY,
Washington, May 23, 1921.

MY DEAR CONGRESSMAN: I received your letter of May 20, 1921, requesting the Treasury's views in regard to H. R. 6296, a bill to amend section 32 of the farm loan act. I have already sent to the chairman of the Committee on Banking and Currency a statement of the Treasury's views in regard to the corresponding bill S. 1837, and am glad to inclose for your information a copy of my letter of May 19 to Senator McLean.

Very truly, yours,

A. W. MELLON, *Secretary.*

Hon. A. P. NELSON,
Committee on Banking and Currency,
House of Representatives, Washington, D. C.

THE SECRETARY OF THE TREASURY,
Washington, May 19, 1921.

MY DEAR SENATOR: I received your letter of May 11, 1921, requesting the Treasury's views with regard to Senate bill No. 1711 to create a so-called Federal land bank revolving fund in the amount of $50,000,000, and your further letter of May 18, 1921, making the same request with regard to Senate bill No. 1837 to amend section 32 of the Federal farm loan act. I have given careful consideration to these bills, in consultation with the Federal Farm Loan Board, and feel with the board that S. 1837 is better adapted to accomplish the purpose intended. This bill proposes to utilize the existing machinery provided by the Federal farm loan act and should make it possible to meet any emergency or other temporary requirements of the Federal land banks without establishing a new revolving fund or committing the Government to any policy of Government loans to the land banks. The Treasury and the Farm Loan Board have no objections to the passage of S. 1837, and feel that it should be regarded as a substitute for S. 1711.

Speaking broadly, S. 1837 should serve a useful purpose, without at the same time involving the Government in any objectionable policy with regard to farm loans. I think we must all agree that it is not the plan of the farm loan act, and has never been the contemplation of Congress, that the Government should engage in the farm loan business any more than any other business enterprise, nor is it contemplated that the Government should provide the funds for the operation of this mutual system of farm loan banks. Congress did, however, fix the capitalization of these banks, make their organization mandatory upon the Farm Loan Board, and provide for the subscription of their initial capital by the Government. The Farm Loan Board feels positively, and in this view I concur, that the initial capital of the banks was wholly inadequate to permit their practical operation, and this fundamental defect has not as yet been overcome by the normal increase of the capital of the banks. To meet this defect, permit the steady and orderly operation of the banks, and provide for the accumulation from time to time of a sufficient volume of farm loan bonds to justify a general offering, some provision along the line of Senate bill 1837 seems essential. This bill has been drawn in such a manner as to protect the Treasury against financial loss, by permitting an interest charge on the deposit approximately equal to that paid by the Government on its current obligations, and sufficiently high to make certain that the land banks because of lack of profit in the transaction will not avail themselves of the deposit except as necessity might require. This necessity should be steadily lessened by the continuing increase of the capital stock of the banks, and should eventually pass away entirely.

Very truly, yours,

A. W. MELLON, *Secretary.*

Hon. GEORGE P. MCLEAN,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

Mr. LOBDELL. I wonder, Mr. Chairman, if it would be asking too much to defer consideration of the Clague bill until another time? My colleague and I have a difference of opinion about it.

The CHAIRMAN. You do not care to express an opinion on that bill to-day, because of the division between yourself and your colleague?

Mr. LEVER. Did I understand some one to suggest that we file a statement?

Mr. KING. No; Mr. Nelson asked permission to file his own statement.

Mr. LOBDELL. If we can serve you gentlemen just as well, and possibly the other bill just as well, we would rather come some other time and discuss that matter. In the meantime we will discuss the viewpoint among ourselves and try to reconcile our views.

The CHAIRMAN. You gentlemen of the committee understand that Judge Lobdell would like to defer an expression on the Clague bill, to fix the rate of interest on farm loans at 5½ per cent until a later date.

Mr. STEVENSON. I don't understand that we are having hearings on that bill to-day.

The CHAIRMAN. It was agreed the other day that we would consider both bills to-day.

Unless there is some other question to be asked Judge Lobdell we will excuse him, and we will hear Senator Norbeck of South Dakota. He wants to be heard in connection with this matter.

STATEMENT OF SENATOR PETER NORBECK, OF SOUTH DAKOTA.

Senator NORBECK. I am greatly pleased at this opportunity, Mr Chairman, to appear before you on behalf of the people of South Dakota and the Northwest generally. I will say frankly that I am not so well informed on the situation in other places, but I know what our conditions out there are. We are a new State. There is no one there but farmers. It is a large State, twice the size of Pennsylvania, but our largest city, if you will pardon that expression, is about 25,000 people. We haven't any manufacturing centers; we haven't any retired capitalists; we are just farmers and more farmers.

We are fully impressed with this idea, and have been for a long time, that our prosperity and our growth is largely due to the fact that we have been able to go East and get farm loans. We have come to a full realization of the fact that it takes two kinds of money to do business, and that we only have the one kind. We have the short-time money, mostly checking accounts that in ordinary years is sufficient to take care of the business of the country, getting seed grain and paying hired help and grocery bills until fall comes. Ordinarily we will go along in a pretty prosperous condition.

Our growth has been good for a great many years, and we are good spenders. I think the prosperity of the East is in no small degree due to our prosperity. We send our money east just as quick as we get it to buy automobiles, cotton goods, machinery—in fact, everything produced back here. If you want to look for a reason why you are building additions to your factories all the time and expanding and accumulating wealth, look out West, because that is where a good deal of our trade comes from.

We would not have very much distress out there even now if it had not been that the natural order of things has been upset, and that is this: That the money ceases to flow in the regular channels. We still have our short-time money in the banks, just barely enough to scratch along with. Most of our banks are down below the legal reserve; so much so that if a farmer in December wants to borrow two or three hundred dollars to pay his taxes or pay interest on a real estate mortgage, or even pay a doctor bill, he goes to the local banker, who says, "Look here, the State law says I must carry 12 per cent reserve, and I am down to 6. I can't do anything for you." So the man, in desperation, goes to his neighbors who have money in the bank, and, of course, he can get a little that way, and they promptly check it out of the bank, and the reserve goes down some more. That is the situation out there.

But this is the difference between the East and the West: You are an older settler; you have accumulated through the long period of years; you have every 10 or 20 miles your little "towns" as you call them—we would call them "cities" if they were out on the prairies—and like a man told me here the other day, "We don't know any distressed conditions; is there any place where a man who has good security can't get money?" That simply reflects a view that covers only a part of these United States of America. It don't cover that section where I come from, because there is no way to get money.

The Federal farm loan has been helpful to us. Every avenue is helpful; but we are heavy borrowers. We borrow about $400,000,000 from the outside, and these men down East are perfectly willing to take some real estate mortgages——

The CHAIRMAN (interposing). That is the State of South Dakota?

Senator NORBECK. The farmers—I will put it a little differently. The real estate mortgages, including the mortgages in the little towns and on the farms, amount to about $400,000,000. That is approximately the same amount as our bank deposits, short time money, but we have enough generally to get along if we can supply the real estate loans and take care of the other end without drawing the bank deposits down.

The CHAIRMAN. That $400,000,000 has to come from outside of the State?

Senator NORBECK. Yes, practically all of it; a great deal more than 90 per cent of it.

The CHAIRMAN. What has been your experience, that that comes from eastern bankers, investment houses, and insurance companies?

Senator NORBECK. Yes, and lots of it through private channels, from men in the East who have retired and have some money to loan and want to loan it through personal channels, friends, and bankers.

The CHAIRMAN. Have they stopped making those loans out there?

Senator NORBECK. Very largely, and that is our distress.

The CHAIRMAN. To what do you attribute that?

Senator NORBECK. I attribute it to the fact that—I think there are a good many reasons, but the main explanation is probably this, as the man tells me who pays a pretty good sized income tax: "I can take a 5 per cent Government bond, tax exempt, and it will earn me more than an 8 or 10 per cent farm mortgage will." In other words, we are protesting that it is because natural conditions have been upset.

We are not here asking for favors; we are not here asking that somebody give us something. We are saying, put us back on a natural basis; that which you have done by law that has taken money away from us, try to help us restore it in some way, or give us relief by some other means or by some other method.

Mr. DUNBAR. But if you put it back to the natural basis we will keep out of the proposition altogether.

Senator NORBECK. If you say that money used for a certain purpose shall be tax exempt, but if you loan money to the farmer it shall be taxed, you have disturbed the farmer.

The CHAIRMAN. You are opposed to tax-exemption, then?

Senator NORBECK. I think it is one of the worst evils there is. I think the trouble is largely due to that fact.

Now, here is one thing, there seems to be some misunderstanding as to the amount of money that is needed for farm mortgages throughout the State. I haven't any figures on that except on South Dakota, and I have got them pretty near accurate, but I presume that Iowa owes five times as much as South Dakota does, on account of their greater value and larger loans. If they do, you will see where it is getting to.

Now, it has been said to-day, the National banks have loaned $150,000,000. What is $150,000,000 on real estate loans? One-third of what South Dakota needs, and South Dakota is only one of the 48 States in the Union. What does it amount to?

The figures have often been quoted that the farm loans are $4,000,000. I have never been able to get any statistics on it. I think it is entirely too low.

The CHAIRMAN. Do you know the amount of money that the farm-loan system has loaned in your State?

Senator NORBECK. Yes, sir; $8,000,000, out of $400,000,000—2 per cent.

I might say here, since you ask, that we have another avenue in our State where we have been trying to help ourselves. Before the farm loan was enacted, at the time when we didn't know it was going to be enacted at all, the State established a farm loan bureau, and through that agency we have brought into the State $40,000,000 in the last few years.

The CHAIRMAN. Do they issue tax exempt securities?

Senator NORBECK. Yes, they have to, or they can't sell them down East. You see there is not a single piece of that paper sold in the West, not a piece of it. It all goes East, because we haven't anybody living among us that has got idle money; it is just one farmer trying to borrow from the other. That is all it can be when it comes to real estate loans.

That is about all I want to say, gentlemen, and I will close with this statement, that you can relieve the distress somewhat if you will help the farm bank function by giving them a little money to function with. If you will increase the interest rates so that these bonds can sell, you will help us somewhat. It will not relieve the situation; it will not put us on a normal basis, but it will help temporarily and it will be a decided relief. You can see now that when farm mortgages are demanded and they can't be renewed the farmers are in distress; he is going to be foreclosed; he goes to the bank and the bank says, "We can't help you;" he goes to his neighbors, and

metimes he can borrow a little from them and they check it out the bank. Sometimes he goes to sell a farm at a real sacrifice to mebody that has got some money, and they draw it out of the bank. Now, that is all I want to say, gentlemen, unless there are some estions you want to ask.

Mr. LUCE. What do you say, Senator, to the report of Gov. arding, which virtually amounts to a statement that the banks of e West are not now using more than half their lending resources?

Senator NORBECK. There are a good many reasons for that, you derstand. When a bank has financed a farmer or a stockman, he as either sold his stuff or he hasn't. If he has sold it, they have got me poor paper left; they can't go to the Federal reserve bank very ll, but they will want him to get a real estate loan so he can pay e bank. If he has some two-year old steers or calves or cows that wants to hold until they grow in value so he can pay his note, you ople may say that he is holding them for a better market. Of urse either statement would be true.

Mr. NELSON. Mr. Chairman, I think that in view of the fact that e have had so full a hearing on bill No. 6296, and in view of the fact at we have the approval of the Secretary of the Treasury and the proval of the Farm Loan Board, and I think also the approval of large majority of the bankers throughout the agricultural secns, and in view of the fact that the emergency does exist, as has n stated by the Treasury and the Farm Loan Board; and in view the fact that the Farm Loan Board needs this temporary aid so at they may be able to function and thus relieve the agricultural ress which exists to-day, I believe, Mr. Chairman, we are now as dy as we ever will be at any time to make our expression upon this l, and I move you, sir, that we report favorably upon H. R. 6296.

Mr. LUCE. Mr. Chairman, I think it is not customary to take up estions of this sort except in executive session, and I move that e go into executive session.

Mr. MACGREGOR. I move that we adjourn. I am not prepared to te on this proposition at present.

Mr. J. H. ALLEN. Mr. Chairman, may I interrupt for just a moent? I came a long ways upon this matter, from Des Moines, Iowa, d I would like the assurance of having some time stated when I ht be heard on this proposition.

Mr. KING. Let us hear him right now.

Mr. ALLEN. No, I don't want to intrude on you now, but I would e to know when I could be heard.

Mr. MACGREGOR. I will withdraw my motion if you want to hear n now.

Mr. STRONG. Do you want to be heard upon this bill?

Mr. ALLEN. Not upon Mr. Nelson's bill; no.

Mr. KING. Which bill do you want to be heard on?

Mr. ALLEN. The 5½ per cent bill.

The CHAIRMAN. I might suggest to the committee that we go into ecutive session now and when we get through with this matter of . Nelson's we will meet this afternoon at 3 o'clock and hear these tlemen.

(Whereupon, at 1.15 o'clock p. m., the committee went into extive session.)

AFTER RECESS

The committee reassembled pursuant to the taking of the recess, Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee has up for consideration this afternoon, H. R. 6035, which is the bill introduced by Mr. Clague. Do you want to make a statement, Mr. Clague?

Mr. CLAGUE. Mr. Chairman and gentlemen, Mr. J. H. Allen, president of the Joint Stock Land Bank of Des Moines, Ia., is present to speak on this 5½ per cent bill that I have introduced and I want to give way to him at this time.

STATEMENT OF MR. J. H. ALLEN, DES MOINES, IOWA., PRESIDENT OF THE JOINT-STOCK LAND BANK.

Mr. ALLEN. Mr. Chairman and gentlemen of the committee, I have a formidable bunch of papers here, but I will not read them all into the record.

The occasion of our being here is in connection with this bill providing for increasing the rate or, rather, permitting the Board to increase the rate on farm loan bonds to 5½ per cent As the law now stands, the limitation on the bonds is 5 per cent; the limitation on the rate of interest to the borrower is 6 per cent. This bill will give the power to the Farm Loan Board to make the rate on the bonds 5½ per cent if in their judgment it is wise to do so and is necessary to meet the market. This does not permit the land banks to increase the rate of interest to the borrower. In other words, the land banks must forego the profit of one-half of one per cent upon their mortgages, or upon their business if they sell the bonds at 5½ per cent

Now, gentlemen, I assume that we are a function or, rather, a branch of the farm loan system; that Congress has, in its wisdom, decided that joint stock land banks are a part of the system; that, as such, we are entitled to your fair consideration and, as such, we are entitled to the opportunity to do business and to function, in order that we may do the thing which Congress, in its wisdom, set us out to do. You invited us into the business. We have put up our capital; we have spent now practically two years' time in trying to carry out your wishes. During that time we have been hampered by every possible means within the power of one of the most powerful organizations in the United States, seeking to prevent us from doing that thing which you set us in motion to do. Therefore, we have not been able to function during all of that period, but we are now in a position to function at this time provided we are given the right to issue bonds and to take from our own products, which the law gives us, one-half of 1 per cent. And this we are willing to do.

Mr. DUNBAR. Would you please tell the committee what organization it is you referred to as opposing your banks?

Mr. ALLEN. Yes, sir. The Farm Mortgage Bankers Association of America. Now, if you gentlemen have any question about what I state, I have here folders and circulars and bulletins, to the number of I do not know how many, that have been given broad and wide circulation throughout the United States, not only to the bankers and investors of the country, but also in the press. And these are

the evidence of the statement which I make. These are not all, however, of these bulletins and so on which have been spread broadcast.

Mr. STRONG. What is your bank?

Mr. ALLEN. The Des Moines Stock Land Bank of Iowa. In order that you may have a history of our existence, these land banks and the Federal land banks also were attacked in the Supreme Court through the machinations or the institution of the suit by the Farm Mortgage Bankers Association of America. I could read to you letters soliciting funds that that work might be carried on. I could also read into the record, if I had the time, a statement saying the bankers had profited very materially by simply preventing these banks from functioning in the commissions which they had obtained. And, if you wish that done, I will prepare a complete list of these letters and of the statements of this association. So that I am not stating a fact that is not capable of abundant proof when I state that that association brought the action which prevented the land banks from functioning—not only the joint stock land banks but also the Federal land banks as well.

Mr. NELSON. All of the material you have there has been put in the hearings of the Banking and Currency Committee of the Senate?

Mr. ALLEN. No, sir; I have just put in two or three letters, and I have quite a complete file—not all of them by any means, but quite a complete file.

Now, I assume, as I said, gentlemen, that we have the right to appear before you as an arm of this system; we have a right to expect from your hands the fair and just consideration which every organization or every business organized under the laws of the United States has a right to ask; and upon that assumption I want to come to you with the proposition which is now presented in this bill, namely, the right to increase the rate of our bonds to 5½ per cent under the direction of the Farm Loan Board, without one cent of extra charge to the borrower.

The CHAIRMAN. Can you operate on a margin of one-half of 1 per cent?

Mr. ALLEN. I will say this, Mr. Chairman, that we can operate, but it will be practically without profit. But the situation, the financial situation, in the rural communities of the Middle West is such that the man is craven that has the power and who will not go out and try to relieve that situation—that banking institution, or insurance company, or what-not, that has the money to-day to relieve the financial situation of the Middle West and the farming communities I say is a long way from the patriotic institutions that we supposed we had during the time you were conducting this great war. We are willing to sacrifice our profits in order that we can relieve these country bankers who are struggling to-day to keep their doors open, and many of them are in a situation where they are threatened every day with the danger of being compelled to close their doors.

Mr. NELSON. May I ask you if you mean by that that these loaning associations and bankers are now demanding exorbitant rates of interest and exorbitant commissions just because of the situation?

Mr. ALLEN. Absolutely.

Mr. STRONG. They are asking about 7 per cent now, are they not?

Mr. ALLEN. These mortgage brokers in the Middle West to-day are charging 6½ per cent on everything I know anything about and

they are charging all the way from 3 to 10 per cent commission for placing these loans.

Mr. FENN. You are from Iowa, sir?

Mr. ALLEN. Yes, sir.

Mr. FENN. What effect would this raise in the rate on these securities of yours, which I understand are tax exempt——

Mr. ALLEN. Absolutely; yes.

Mr. FENN. What effect would that have upon the issuance of your school district and county bonds there—the sale of those?

Mr. ALLEN. I do not think it would have any more effect——

Mr. FENN. Haven't you had great difficulty in placing those school district and county bonds?

Mr. ALLEN. No, sir; not at all. I am in the bond business and sell them right along.

Mr. FENN. What rate do they pay?

Mr. ALLEN. Five and one-half to six per cent.

Mr. FENN. Five and one-half to six per cent?

Mr. ALLEN. Yes, sir.

Mr. FENN. You want these raised to a rate to compare with them?

Mr. ALLEN. Yes, sir.

Mr. FENN. Are they tax exempt?

Mr. ALLEN. They are.

Mr. FENN. They are a similar class of bonds, for the purpose of my question?

Mr. ALLEN. Yes, sir.

Mr. STRONG. Haven't you a State fund, a school fund, that takes care of your bonds?

Mr. ALLEN. Not anything that is a factor. We have a school fund, but it is nominal.

Mr. FENN. You do not think this would have any effect on your school district or county bonds—raising the rate on these bonds?

Mr. ALLEN. I do not.

Mr. LAWRENCE. What would be the probable amount of these bonds in the United States?

Mr. ALLEN. The nearest estimate we can get, from an analysis of the mortgages that are in existence, the farm mortgages that are in existence in the United States at this time—the nearest estimate we can get from a study of the financial situation—would place the largest amount of bonds that would ever be offered upon this basis at about $1,250,000,000, if they were all exempt. Now, I will give you a reason for that. We have, it is estimated, about four billion of farm mortgages in the United States at the present time. I can turn right here to a statement that will give it to you as I worked it out in a former hearing, and it is as near accurate as I can get it. That four billion in farm mortgages to-day are held about as follows: Insurance companies, about $1,100,000,000. Now, when you come to insurance companies, you want to remember that insurance companies do not pay an income tax except upon the profits of the business which the insurance company gets—not on the profits which go for the benefit of the policyholders. Therefore they do not pay an income tax any more than our banks pay an income tax—upon the same basis. Therefore, there is no inducement to them to buy tax-exempt securities any more than there is now. This would only place a competitor in the field for business with them.

It is estimated that the banks own about $1,000,000,000 of mortgages; that is, mortgage banks and banks of all kinds. Eleemosynary institutions, it is estimated, own $400,000,000; individuals, about $250,000,000; contracts and mortgages, excess loans, about $1,250,000,000—constituting the four billion. The field that would be entered would naturally be the contracts and excess loans, where those loans would be financed into these mortgages and then the people carrying the second mortgage for the difference.

Mr. LAWRENCE. While it would not cost the borrower any more, would it not cost the bondholders of this country money in the depreciation of the Government bonds? These bonds were sold, a great part of them, at 4¼ per cent, tax exempt to a certain extent. These bonds would be 5½ per cent, just as safe and tax exempt altogether. Would not that have the tendency to further depreciate the value of the Government bonds?

Mr. ALLEN. I would think not, because the volume of them, I doubt, would ever reach a point where it would have that effect. Let me give you my reason for these things. My reason for stating that is this, that you are creating to-day about a billion dollars annually of municipal and other bonds that are absorbed in the market. You have in the market to-day $16,000,000,000 of tax-exempt securities that are for the benefit of the city dwellers—over $16,000,000,000. If all the farm mortgages in the United States were refinanced into tax-exempt securities, you would only have four billion, or one-fourth of what you now have in tax-exempt securities in State, municipals, and all the other classes.

The CHAIRMAN. Are you in favor of tax-exempt securities?

Mr. ALLEN. Well, sir, I will say this, Mr. Chairman, that if we were at the beginning and we did not have constitutions in States and we did not have municipalities in States—if we were at the beginning of our existence and we could have a constitutional amendment, amending the Constitution of the United States, whereby no tax-exempt securities could be issued, then I would say we would not have any tax-exempt securities.

The CHAIRMAN. Don't you think it would be a good plan to repeal the present existing provision?

Mr. ALLEN. You have got to get a constitutional amendment to do so. I have not any objection to starting it. But when you do have tax-exempt securities, $16,000,000,000 already, and you only have $426,000,000 of farm mortgages, or less than 2½ per cent, it looks to the farming communities of the whole United States like you are starting at the end of the dog's tail, and a mighty short half inch at that, when, if you cut it off, it will kill the dog.

Mr. STRONG. You did not ever hear anything against tax-exempt securities until the farmer asked for them?

Mr. ALLEN. Absolutely no.

Mr. FENN. Are not a great many of these tax-exempt securities county, municipal, and State?

Mr. ALLEN. Certainly.

Mr. FENN. The farmer benefits under those just as much as any other citizen?

Mr. ALLEN. There are not as many counties as municipalities.

Mr. FENN. There is not a big offering of counties to-day, but if there are counties, does not the farmer participate in that as much as anybody else?

Mr. ALLEN. Oh, he certainly does.

Mr. FENN. And are there not large county issues now that are tax exempt?

Mr. ALLEN. Very small.

Mr. STRONG. Does the farmer benefit by those?

Mr. ALLEN. Of course he does.

Mr. STRONG. But the big school bonds are generally issued by the cities.

Mr. FENN. You are benefited by the road bonds. You should not segregate them in that way and say unless you lend money to the man on the farm that is the only thing he is benefited by. He is benefited by a thousand other things, by the county, municipal, and State bonds.

Mr. STRONG. He is benefited, but he does not get the larger benefit.

Mr. FENN. He gets it in the roads more than the city man does, does he not?

Mr. STRONG. Oh, no; he does not. The city man goes out in his automobile and throws dust in his eyes when he is hauling corn.

Mr. FENN. You have more automobiles in Kansas than Connecticut.

Mr. STRONG. Oh, Connecticut is a very small place.

Mr. FENN. We pay them our money and pay your bills and pay twenty times as much into the United States Treasury as you do.

Mr. STRONG. Oh, because you are rich why should you kick on our trying to get the privilege of borrowing a few dollars?

Mr. FENN. You do; we are loaning it to you.

Mr. STRONG. Then if you are loaning it to us, we are both happy.

Mr. ALLEN. I want to answer the gentleman in this way—that New York City has more tax-exempt bonds than we will ever have in Iowa or the whole agricultural section of the country, more than all of the bonds that will ever be refinanced into tax-exempt securities.

Mr. STEAGALL. Who has that?

Mr. ALLEN. New York City.

Mr. STEAGALL. Have they many farmers in New York City?

Mr. ALLEN. I have not heard of any. And I want to say further if you take the municipalities, that the large cities of the country have practically—well, we will say, practically the whole outfit of them have them in proportion.

Mr. LUCE. Would you take up now the situation in Iowa particularly, how far your banking difficulty there is due to the process of deflating the values of your farm lands?

Mr. ALLEN. Not at all; I would say to the process of deflating our farm lands not at all.

Mr. LUCE. It is generally supposed—I think I have a bulletin over in my office, showing an enormous nominal increase in values in the last four years.

Mr. ALLEN. Yes, sir.

Mr. LUCE. How big a per cent of the value do you lend from your bank?

Mr. ALLEN. If you would ask the question in the other form—I do not want to try to dodge the issue, but if you asked me what part of our trouble was due to inflation, I would answer a considerable percentage.

Mr. LUCE. Just tell us about the advance in farm land values in Iowa.

Mr. ALLEN. I would say our farm land values advanced at least 33⅓ per cent to 50 per cent during the two year period after the war; but we had had no advance at all in farm values from 1917 until that period. So that I think one of the best judges of values of lands, one of the most conservative institutions in the West, the Merchants Loan & Trust Co., of Chicago, through a very careful compilation of statistics, found that the increase which did come in a two-year period was not unreasonable; that there was, taking it through a period of 10, 15, or 20 years, what would amount to the normal increase. In other words, we had a six-year increase in value come in two years.

Mr. STEVENSON. What about the decrease since the depression has come about?

Mr. ALLEN. There has been no appreciable decrease in the value of the lands; there has been occasionally a man forced to sell lands at a reduced price, but the market value of land has not materially reduced.

Mr. STEVENSON. You take general products that increased in price, the dollar to-day will buy twice as much wheat or anything else as it would before?

Mr. ALLEN. The decrease has come in the products of the farm.

Mr. STEVENSON. This is the question I want to get at: The proposition here is to raise the rate of interest. Now, say a year and a half ago the dollar would not buy more than half of what it will to-day and, therefore, a man who was getting 5 per cent for his money then, can to-day, with that 5 per cent, buy twice as much as he could two years ago. Now don't you think it is an inopportune time to go to raising the rate? The dollar is worth twice as much as it was two years ago, and when you are getting 5 per cent you are getting twice as much now as you were two years ago, and don't you think it is a little inopportune to raise the rate so as to give them more money, which will still further appreciate the value of the dollar? Don't you think there will be a flareback in there somewhere?

Mr. ALLEN. No. I would say this, that the great cause of the depreciation in the value of farm products, live stock, and all those things which go to make up the farm, has been due to the fact that liquid capital has been taken out of our country by the depreciation of our liquid products, like corn, grain, cattle, hogs, and so forth. In other words, corn was $1.80; it dropped down to 30 cents; hogs were 18 and 20 cents, they dropped down to 6 cents. Now, then, gentlemen, you can say all business—and you understand this matter of business better than I do, but it does not take a man very long who has ever had any business experience to realize what is the situation of a community, of a country, where all their business is agriculture and all their products are grain, and horses, and cattle, and hogs, and to find out what the banking situation is and to find out what the condition of the people is in a situation of that kind.

Mr. STEVENSON. But to come back to my question. Here is a fellow who went into war contracts and made a million dollars.

Mr. ALLEN. Yes, sir.

Mr. STEVENSON. When he got out 12 months ago, he was getting 5 per cent on it, or he got $50,000 for a year. That would buy a certain amount of wheat. To-day, he is still getting his $50,000 a

year and it will buy twice as much wheat. Now do you propose to fix it so he can go in and take securities and still elevate more his opportunity to get securities that will enable him to get a still higher rate, and to accentuate still more the ungodly gains he has already made?

Mr. BROOKS. I think most of those men had their money invested in business and lost just about what they made. That is the history of the manufacturer during the war.

Mr. STEVENSON. I am not talking about the manufacturer; I am talking about the speculator.

Mr. ALLEN. I do not know how you would reach the profiteers all over the country.

Mr. STEVENSON. I am after him. I am just discussing the question whether this is an opportune time to appreciate the earnings of a dollar, when it has already appreciated 50 per cent in 12 months at least.

Mr. ALLEN. Upon that point, I will say this, that if you do not give some relief, you are going further to depreciate and you are going further to ruin the agricultural sections of the country.

Mr. BROOKS. Why don't this money go there now?

Mr. ALLEN. I say that it does go there.

The CHAIRMAN. With an increase of one-half of 1 per cent, do you have assurances of selling all of your bonds?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. You have a ready market for them at 5½ per cent?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. For how much?

Mr. ALLEN. For twenty-five or thirty million of them.

The CHAIRMAN. That is to say, you have a market to sell those at par?

Mr. ALLEN. Yes, sir. Now, I will explain just a little further here with reference to the joint stock land bank situation. We are not permitted to sell our bonds at a discount, and we are not permitted to charge a borrower a cent over 6 per cent. Now, being unable to sell the bonds at a discount, the board not permitting us to do so, and being unable to charge the borrower a cent over 6 per cent, you can see at once that we are absolutely stopped; we can not do business.

The CHAIRMAN. What are your bonds selling for now in the present market?

Mr. ALLEN. The last quotation when I left home they were 94½. That is a 5-year option bond that has two or three years yet to run.

The CHAIRMAN. Then your contention is that raising the rate one-half of 1 per cent would increase the price 6 points, to 100 cents on the dollar?

Mr. ALLEN. Yes, sir.

Mr. LUCE. Do you have to put out bonds in lots of $40,000,000 or more?

Mr. ALLEN. The last issue just at the time we were tied up by the action brought in the courts in St. Louis, we had a contract for the sale of $51,000,000. That was our association. We placed $20,000,000 with a syndicate, and then the action was brought, and the syndicate, of course, refused to take the rest of the bonds.

Mr. LUCE. Your association means all the joint stock banks working together?

Mr. ALLEN. Yes, sir.

Mr. LUCE. Could you dispose of your bonds the way cities and towns do, in lots of $500,000 or so?

Mr. ALLEN. Well, the expense of doing that is really prohibitive—that is, in this way, that a syndicate buys these bonds in large lots, and the same advertising campaign, the same selling campaign that puts on a $500,000 sale puts on the $20,000,000 or $30,000,000 worth of bonds. Forty or 50 bond houses go in together and take the whole issue.

Mr. LUCE. Then it is true that the cities and States and counties of the country are working very disadvantageously by selling bonds the way they do now, independently?

Mr. ALLEN. Well, I don't know anything about that. Of course there is a market and has been for years for those bonds.

Mr. LUCE. I can't get it through my head yet, although I have had it explained to me—they didn't make it clear to me—why bonds had to be marketed in such big bunches, when we see so many bonds that are marketed in small lots.

Mr. ALLEN. That is a very easy proposition to explain, I think, in this way, that as I said the syndicate is formed of 40 or 50 of the large bond houses, and then they take these bonds and one advertising campaign and one sales campaign takes care of the whole issue. You can always sell large blocks better than you can small ones. Municipals now sell around 6 per cent in small blocks, $50,000 and $60,000. One-half of 1 per cent every year, you understand, makes quite a difference.

Mr. LUCE. Then it would be a good idea, would it not, for us to vote $50,000,000 to some association that would undertake to market all the State, city and county bonds in the country?

Mr. ALLEN. That is a proposition that I don't know about. I have never made a study of it.

Mr. LUCE. We are after new ideas here.

The CHAIRMAN. You say that you have an available market now for these 5½ per cent bonds?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. Would you sell them through the same sources that the association, the Farm Loan Board, sells theirs?

Mr. ALLEN. No, sir.

The CHAIRMAN. You make your own negotiations?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. Through private banking sources?

Mr. ALLEN. Yes, sir. And I want to say this, too, gentlemen, that the Federal land bank bonds have always sold a little better than our bonds. We are perfectly willing to admit that, because they are advertised as a direct obligation of the Government. We don't advertise upon that basis, and our bonds are not sold upon that basis.

Mr. LUCE. Is there any difference between the two of them in that respect?

Mr. ALLEN. Well, there is a difference in the wording of the law. I think the effect is practically the same. We are not permitted by the Farm Loan Board to advertise our bonds in that way, and we never sought to do it.

Mr. DUNBAR. What is the difference between a Federal farm loan bank and a joint-stock loan bank, as far as they are affected by the Federal reserve loan act?

Mr. ALLEN. Well, I think—you mean as far as affected by the law?

Mr. DUNBAR. Yes, the Federal reserve law.

Mr. ALLEN. The Federal land bank law?

Mr. DUNBAR. Yes.

Mr. ALLEN. Well, in the first place, the joint-stock land banks are owned by private individuals who put up the capital; $250,000 constitutes the capital of a bank. The land banks are permitted to loan 15 times their capital and to sell their bonds. They are limited to 6 per cent to the borrower and 5 per cent on the bonds at the present time, the Federal land banks. The capital is furnished by the Government. Every time they make a loan they retain 5 per cent of the loan and that money is invested in stock in the bank, and that retires just 5 per cent of the Government's capital, as I understand it. The bonds are issued practically as direct obligations of the Government—that is, that is the way they are advertised and the way they are conditioned. Now, then, the difference is—when the capital is finally out there will be no difference in the actual ownership of the bonds; that is to say, they will be privately owned but they will be owned in a cooperative way by the small borrowers throughout the country.

Mr. DUNBAR. Now, the amount of money that the Federal farm loan banks are permitted to pay for interest, that would also be the amount that the joint land banks should pay for interest on money borrowed or on bonds?

Mr. ALLEN. No; of course they can sell their bonds at any price they want to.

Mr. DUNBAR. Then this act will not affect the joint-stock land banks?

Mr. ALLEN. This act affects the joint-stock land banks, and the way the bill is drawn it does affect the Federal land banks.

Mr. DUNBAR. I thought you said it would not affect them.

Mr. ALLEN. They don't have to put their bonds on a 5½ per cent rate, nor do we have to put our bonds on a 5½ per cent rate.

The CHAIRMAN. What, in your judgment, would be the effect of the passage of this bill on the sale of the Farm Loan Association bonds?

Mr. ALLEN. I don't think it would hurt them.

The CHAIRMAN. The fact that they are selling their bonds now at 5 per cent and you are authorized to sell yours at 5½, would not that be reflected in the price of their bonds?

Mr. ALLEN. I think not, because when we were selling ours at 5 they were selling theirs at 4½.

Mr. DUNBAR. You can sell your bonds for any price you can get for them?

Mr. ALLEN. No; we can not. The Farm Loan Board will not permit us to sell our bonds at a discount.

The CHAIRMAN. The association can issue up to twenty times their capital, and you are only permitted to issue fifteen times?

Mr. ALLEN. Yes, sir.

Mr. STRONG. While you are explaining about the joint-stock bank, I would like to ask you what amount of loans—what is the limit of the amount of your loans?

Mr. ALLEN. The board has limited our loans to $37,500.

Mr. STRONG. Do you make loans to two members of a family?

Mr. ALLEN. No, sir.

Mr. STRONG. It has been charged that you do; that if a man has a large tract of land you let him split it up, and then two members of the family borrow to the limit.

Mr. ALLEN. Well, of course, I can't answer that. There might be cases of that. I don't undertake to say that there are not.

Mr. STRONG. Your bank doesn't do that?

Mr. ALLEN. I don't think we ever made a loan of that kind.

Mr. STRONG. If you do, that is in violation of the intention of the law, is it not?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. Have you any loans outstanding in excess of $37,500?

Mr. ALLEN. Well, now, I don't know. I don't believe that we have. Because— in the first place—the law doesn't limit the amount of the loans, but the Farm Loan Board found that there were some large loans being made and they limited, they placed the limit of $37,500 as the limit in the amount of loan, to prevent making very large loans to individuals.

Mr. STRONG. They put the limit pretty high, it seems to me.

Mr. ALLEN. Well, I will tell you, that doesn't go very far on big farms in Iowa.

The CHAIRMAN. Now, this $50,000,000 provided for in the bill we were considering this morning, Mr. Nelson's bill, does the joint-stock land bank benefit by that at all?

Mr. ALLEN. No, sir; that isn't my idea, that they are taken in at all. We have never——

Mr. NELSON. The size of the loan in the joint-stock land bank, isn't that limited by the size of the capital, being 15 per cent of the capital?

Mr. ALLEN. There is no limitation in the amount of loans to the joint-stock land bank under the law. That is a ruling of the board.

Mr. NELSON. That is a ruling of the board?

Mr. ALLEN. Yes, sir. Now, gentlemen, there are a few questions here that I think from the hearings this morning came up in the minds of some of you with reference to the propriety of granting to agriculture the right for the privilege of tax-exempt securities, and I would just like to address myself to that for just a moment, because as far as I am concerned myself I never yet sought a handout at the back kitchen door of anybody's house or that of the Government either. I have always been in agricultural life, and I don't like to have agriculture resting under the imputation that she is receiving something that does not belong to her, and therefore I would like to address myself to that question just a moment.

In the first place, I have always been a Republican; therefore I feel that I can talk on a common basis with some of you men, and perhaps with some of you, I can not. [Laughter.]

The facts are that as a Republican in the days of our infant industries my father instilled into me the profound doctrine of the protective tariff in order that we might build up our infant industries.

I learned that doctrine and believed it to be sound, and we did out there in the West for generations sustain the Republican Party upon the theory that the protective tariff was the protection of home industries and that we were going to build up a home market, and we did. I entertained a vague suspicion that perhaps that might have been a subsidy or a direct benefit to manufacturers, and indirectly we benefited. Then I find again in the study of the history of our country that we have always been generous to those that were seeking to promote the transportation systems of our country for the purpose of building up the West and developing an empire, and we granted large tracts of lands to the railroads and otherwise assisted them.

But again I find that our commercial enterprises require great and enlarged opportunities, and I find that we have built up the Federal Reserve Bank System which takes care of a great commercial interest and enables the business interests of the country to function, and in order to do that we have granted to these banks the power of limited issue of currency in order that they may take care of the class, agriculture, commercial agriculture, among the rest.

But we find upon a study of the uses of these avenues of relief that agriculture is receiving about one-seventh of the benefit; whereas commerce and manufacturers receive about 57 per cent—uses that amount of capital, borrowed capital of the country—and we find that agriculture contributes 57 per cent of the primary deposits of the country, and based upon the rules of credit employed in loaning the manufacturing and other industries, she should be permitted to borrow upon a basis commensurate, which would give her the right to borrow $7,900,000,000 of our banks.

And so I say, gentlemen, I don't like to come down here, it grates upon my Americanism and my right to stand on two feet to have it suggested that agriculture is seeking a sop. I believe we are not seeking a sop, but simply a just and fair apportionment of our country's credit.

Now, it don't make any difference, gentlemen, whether you carry this money to industry through a commercial bank or whether you carry it to the business interests of the country through the Federal land bank, or through the joint-stock land bank; the important function of it all is that these credits, this idle money in one place, shall seek active investment in another, and that we as a whole people shall benefit thereby. Now, that is my conception of this proposition.

The CHAIRMAN. You realize in that connection that owing to the fact that we have tax-exempt securities, and that in this tight money market they are practically on an 8 per cent basis, those people with larger incomes will have to get an income of 11 to 21 per cent out of agriculture and industry in order to compete with tax-exempt securities. Isn't that discrimination within itself against agriculture?

Mr. ALLEN. Certainly.

The CHAIRMAN. Isn't it then the fault of our laws, after all?

Mr. ALLEN. But you have them. You can't get away from them. We have got to live under them. We have got to go through this stress and tight condition of money. We can't wait out West there for you men to amend the Constitution. It don't make a bit of difference to a big percentage of the Iowa people what happens to us three or four or five years from now; it is what is going to happen to us in the next few months.

The CHAIRMAN. I am in accord with a lot that you say, because you are a private institution and the only subsidy that you are asking from the Government is the tax exemption which goes along under the law. You say to us here to-day, right in contrast with what was said to us this morning, that you can sell your bonds, without seeking any other aid from the Government; they come to us and ask a subsidy of $50,000,000 in order to market their bonds.

Mr. STRONG. I beg your pardon, Mr. Chairman; the word "subsidy" is not the correct term.

The CHAIRMAN. $50,000,000 capital, then, we will say.

Mr. WINGO. It is protection for an infant industry. That is what it means. [Laughter.]

Mr. ALLEN. But I want to say just a word further.

Mr. LUCE. May I interject one question there before you get away from tax exemption?

You never made an estimate as to how much tax exemption is worth to you on the interest rate?

Mr. ALLEN. You mean to our banks?

Mr. LUCE. I mean what rate would you have to pay on your bonds if they were not tax exempt?

Mr. ALLEN. Well, I would imagine—I doubt whether they would sell at all, to be frank about it, in this market. I doubt whether they would. In the first place, the farm mortgages don't sell except to the insurance companies, who take a few loans occasionally, and once in a while some mortgage banker takes a loan, but they charge them like blazes for the freight.

Mr. LUCE. Take it in normal times, has there been any computation as to what the value of exemption is on the bond?

Mr. ALLEN. No; we haven't had really normal times since the land bank law was put into effect. And, of course, there is no question in the world but what it would be very material, very substantial.

Mr. LUCE. More than 1 per cent, do you think?

Mr. ALLEN. Yes; that would be in normal times. One per cent would be equivalent to about a 20 per cent income.

Mr. GOLDSBOROUGH. I have been sitting here wondering what the argument against your proposition is.

Mr. STRONG. The argument against it is that it might help agriculture.

Mr. GOLDSBOROUGH. What other argument is there?

Mr. ALLEN. I haven't heard any at all.

Mr. GOLDSBOROUGH. I would like to have you tell me what would be the contention of the opposition.

Mr. ALLEN. Well, I have heard this, that it would draw money from other channels that want to use it.

The CHAIRMAN. Well, is your real opposition the opposition of the Federal Farm Loan Board? Is it this opposition of the association plan. Is that the real crisis here? Is it the crisis between the farm loan association plan and the joint stock land bank as to which shall survive? Isn't that, after all, the real thing?

Mr. ALLEN. Not to my knowledge. I know there has been feeling among the board, to be really frank with you—we have tried to avoid the question—we don't admit it ourselves, but the Farm Loan Board, some of them, has said that they did not think the system ought to

operate. They have said that. I think they have changed their views upon that to a considerable extent.

I think the reason that was given to me upon that proposition was that there would be conflict and difficulty in the administration, but upon that point I think the plan will prove to everyone that there is just as important use for both branches of this business as there is to-day for a mortgage bank and a commercial bank. My own view of this is that if you don't have a limitation for a cooperative bank you will curtail and prevent the caring for the little fellow who is out on the outposts doing the pioneer work, and the little fellow that is seeking to make for himself a home, because the expense of the campaign and the care of the loan and all that is so much that private institutions would not seek to take care of that class of business.

Mr. STRONG. Let me ask you a question. Don't you think that was the purpose of the law and the purpose of granting tax-free bonds, to take care of the man of small means and enable him to purchase a farm home and become a producer for the whole country?

Mr. ALLEN. No; I don't think so.

Mr. STRONG. And to keep the mortgage companies from charging the little fellow an outrageous rate of interest?

Mr. ALLEN. I don't think so.

Mr. STRONG. Do you think it was for the purpose of letting the large landowners get cheap money to buy more land with?

Mr. ALLEN. No; I don't think that. I think it was for the great, broad purpose of stimulating and developing agriculture, upon the broad principle that the country needed food; that the country had to have food; and that was the problem, and to keep the men of means upon the farms, where the production requires large investment.

Mr. STRONG. Are the men who make these large loans men who now live upon the farms, these $37,000 loans?

Mr. ALLEN. Some of them do; some of them don't.

Mr. STRONG. Isn't it generally true that the men who make those big loans are landowners that don't live on the farms?

Mr. ALLEN. No; I don't think so. I can name you a vast number of them that live on the farms.

Mr. STRONG. For what purpose are men making these large loans? Isn't it to buy more land?

Mr. ALLEN. Sometimes, possibly.

Mr. STRONG. If they borrow money to buy more land, they defeat the purpose of creating and protecting the little landowner, don't they?

Mr. ALLEN. Certainly; but that is not the point. The point in the whole proposition is this, that the system is based upon the proposition that it is a benefit and an aid to agriculture, and that the whole society benefits and receives in return a cheaper living cost because of the larger production.

Now I can give you some farm problems, if you would like, in just half a minute's time, and show you how this thing works. You talk about the large farms—you are familiar with them out in Kansas, I have no doubt—I dare say that you have farmers out there producing live-stock, cattle, and so on, that have perhaps $25,000 or $50,000 worth of cattle on their farms. They are just as necessary as the fellow that is out raising peanuts, or the fellow that is raising onions, and you perhaps have—we have in Iowa—men that are raising large numbers

of hogs, good cattle, and all that, and it takes a tremendous pile of money to do that kind of business. Those men are just as much entitled, in my opinion, to consideration as any other man and he has just the same difficulties and a great deal worse than anybody else.

Mr. STRONG. But until the present recent conditions deflated the price of the products of the farm and pretty near ruined the farmer and the stock raiser, wasn't it true that the rich man, the farmer of large means, could borrow money at a reasonable rate of interest?

Mr. ALLEN. Not always.

The CHAIRMAN. I would like to interject here at this time that there are only three men on the committee now who were present when the farm loan act was passed in 1916. I think the other two besides myself are present here now, Mr. Wingo and Mr. Steagall, and they will remember the advocates of that bill said that the real reason for this legislation was to help the poor, landless farmer, the little farmer, the tenant farmer, to acquire land. That as the main proposition that was advocated, that was put forward in advocacy of the passage of that law. I think those men will remember that my argument at that time was that it would not help that fellow to the extent they believed, and would be utilized by the big, wealthy farmer, and would be used to stimulate speculation and increase land values. My contention all along was that the man who had $50,000 worth of property should not be coming to the Government to help him, but should go to outside investment sources.

Mr. WINGO. May I ask a question here? I am impressed with the broad intellect of this witness, notwithstanding the fact that he admits he is a Republican though he comes from an agricultural State. [Laughter.]

The chairman has brought out a point here that I want to develop and get your idea on. I have been somewhat interested in it lately. I notice in the advanced reports of the Census Bureau giving the average rate of interest on farm loans in the different States, they give my own State 7.1 per cent as, I recall, although I never heard of as low a rate as that in my State. Do you know of any man who has got a plant, an agricultural plant in Iowa, which among other things has $25,000 worth of cattle, that has any difficulty in getting a loan at a reasonable rate of interest at private sources during normal times?

Mr. ALLEN. Yes, sir.

Mr. WINGO. Will you name any company that refuses to loan to that man funds at a reasonable rate, say, these $25,000 and $55,000 ranch loans, or plantation loans, as we would call them in my country? Wasn't that one of the reasons why the Federal farm land bank system was built up, that the private agencies in this country, insurance companies and others who had funds at a reasonable rate to let out in farm mortgages, very naturally were attracted by the large loans because, based on the percentage of the volume of business the overhead expense was small, whereas the small $300, $500, and $1,000 farm loan could not pay the cost of "transporting" it to the credit market? Wasn't that the reason, and the only justification, for the Federal Government starting up a governmental agency for the marketing of those credits? What justification can we offer for maintaining a governmental credit agency to finance loans for a man that has got a plant worth $75,000, when under normal conditions insurance companies and private loan companies are anxious to make

him a loan at a very low rate of interest? How do you meet that now? I am sure as an intelligent man—I am not asking that in an argumentative sense; I just want to know what the answer is. I never heard it answered and I would like to know what your views are.

Mr. ALLEN. Well, sir, in the first place, Mr. Wingo, I will say this, that as I read the reports of farm credits—I don't know anything about your debates in Congress, because I didn't have access to them—but as I read the reports that have come from the working out of this proposition in Europe, I find that you have this kind of situation: In Europe they have the two systems, one for the large borrower and the borrower that doesn't want to put his securities into a cooperative institution; and also the proposition that you have, for instance, a Swede in a German community, or an Irishman in an English community—at the present time—and so we might go along the list, and therefore they found that the two institutions were needed. Now, coming to answer direct to your question as to why this man needs the aid or the agency of this system, I want to say this, that my own view of it is this: In the first place the Government or the tax-free securities absorb a large percentage of your capital which otherwise would go into farm mortgages and has done so for years. It is not true that the large farm owner can finance his mortgages at a reasonable rate without some such agency as this. It is also true that the bringing in of this system reduced the rate of interest, and this can be easily shown by the immediate rise in the charges for loans after the farm-loan act stopped functioning. Immediately the farm-mortgage bankers associations, the insurance companies, and all, advanced their rates enormously after the action was brought in the St. Louis courts.

Mr. WINGO. May I call your attention to this? Of course, I don't know what exists in Iowa at the present time. In 1915, however, I had occasion to be in Iowa for 40 days. I talked to bankers and farmers at least once a day upon the question of rural credits and credits generally. I found that the actual records out there showed that the larger loans were floated at 5 to 6 per cent; that the great bulk of the larger loans, the farmer didn't have to pay a premium to the agent to get it, but that when you got down to the smaller loans they would have to pay the customary rates, 5 or 6 per cent, and give from 1 to 2 per cent premium, which is sometimes represented by a cash deduction or by a second mortgage; but that the loans out there as a whole averaged less than 8 per cent on the whole business, including commissions and all; and they ridiculed the suggestion that they were interested in rural-credit legislation for that reason.

Now, do you mean to tell me that since that time the man who has got a $75,000 agricultural plant and wants, say, $25,000, that he can not go to a private mortgage concern or one of these insurance companies and get it at 6 or 7, or as high as 8 per cent?

Mr. ALLEN. I mean to say that the great percentage of them can not get it at all at any price.

Mr. WINGO. That refers, though, to the deadlock on everything does it not?

Mr. ALLEN. Well, it does not refer to the deadlock on everything, because——

Mr. WINGO (interposing). Do you think when we get through this present time, that then the insurance companies and the private loan

agencies will want to charge a high rate for these large loans; if so, how much do you predict a year from now these insurance companies will be loaning on a $25,000 mortgage in Iowa? What rate will they be charging? Let us get down to brass tacks.

Mr. ALLEN. I don't know how you can estimate that. If conditions continue—I will answer it this way: If conditions continue with no relief other than what we see in sight, it won't be long until there is no loaning at all.

Mr. WINGO. Now what do you think they will do? Would you think they would go and invest in your tax-exempt bonds if you made them 5½ per cent?

Mr. ALLEN. I don't know as they would.

Mr. WINGO. What incentive is there for an insurance company to go and invest in a tax-exempt security as against one that is not tax exempt?

Mr. ALLEN. Not any.

Mr. WINGO. There is absolutely none, is there?

Mr. ALLEN. No, sir.

Mr. WINGO. Now the same insurance company that would go and buy a 5½ per cent farm loan bond when they could get a 7 per cent mortgage in the same territory, even though it would not be tax exempt, but for the purposes of the insurance company would not be any distinction, why should they go and buy your 5½ per cent bonds and refuse to buy 7 per cent first mortgage notes?

Mr. ALLEN. Well, I will simply say this——

Mr. WINGO (interposing). What reasons do they give for it under present conditions? You say they do, and I am not disputing it, but I just want to find out why it is.

Mr. ALLEN. I don't know. All I know is that they are not lending.

Mr. WINGO. Do they tell you that they will buy your bonds at 5½?

Mr. ALLEN. No, sir; they don't.

Mr. WINGO. They don't tell you that?

Mr. ALLEN. No, sir.

Mr. WINGO. What assurance have you got that they will buy them at 5½?

Mr. ALLEN. We are not looking to them. We look to the general market.

Mr. WINGO. All right. You think then that you can float a 5½ per cent bond to take care of these $25,000 and $50,000 loans, or $37,000 loans drawing 5½ per cent, when the investor would not buy, say, an 8 per cent straight first mortgage that was not tax exempt?

Mr. ALLEN. That the investor would not pay 8 per cent?

Mr. WINGO. Would not buy the 8 per cent mortgage.

Mr. ALLEN. Well, I would say this, that no farm in Iowa can ever carry an 8 per cent first mortgage. The farmer had better quit right straight off.

Mr. WINGO. Well, you know how to sympathize with people that are paying 10 per cent in advance then?

Mr. ALLEN. You bet I do. If they are paying that they have got just one thing ahead of them, and that is bankruptcy.

Mr. WINGO. The thing I am trying to get at is, Where are we going to find ourselves? I am not going to raise the question of joint-stock land banks as against the others. You know how I feel about that, but we are not facing that proposition now.

You agree, do you not, that different classes of credits, and the price, the market price, of different classes of credits is like the market price of different classes of commodities; they are relative, are they not?

Mr. ALLEN. Yes, sir.

Mr. WINGO. Well now, would it not be infinitely better for you if you continued the downward general movement of the price of credit, instead of trying to check the downward movement and stimulate it by a rise, taking the relative feature of it? For illustration, so that you can follow my thought—and I want your judgment on it; this is not an argumentative question—every time the Secretary of the Treasury goes into the market, either to sell certificates or bonds, he pegs the price of credit at the rate that he fixes. If he says, "I am going to sell certificates at 5 per cent," then that is the basic rate for the credit market, and they figure credit just like you figure freight and other things in the handling of commodities on the base rate. They figure taxes and other things. Now, if it is a tax-exempt security, of course it figures on the same basis as the Government tax-exempt securities. If the Secretary of the Treasury had offered, say, a 5 per cent bond and should turn around and offer a 5½ per cent bond, wouldn't he automatically cause a rise in the credit market?

Mr. ALLEN. I would presume that he would.

Mr. WINGO. Then wouldn't that depress the price of farm loan bonds, Liberty bonds, and everything else, whereas just the converse would happen if to-morrow the Secretary of the Treasury would say, "I want $100,000,000 additional certificates, and I am going to issue them at 4½ per cent"? And if he can induce the banks to take those at 4½ per cent, wouldn't the psychological effect of that be to cause a general settling of the credit market to the effect that the price of Liberty bonds, the price of all industrial bonds and stocks, would automatically rise with the fall in the rate of interest?

Mr. ALLEN. Well, I would say this in answer to your question: The first proposition, that the offering of the Secretary of the Treasury, of course, is a different proposition from the offering of our bonds; but the Secretary of the Treasury and ourselves, and everyone else that goes into the money market will have to bid the market where they have to sell on the market.

Mr. WINGO. Is that really true always?

Mr. ALLEN. I think it is.

Mr. WINGO. If I went out here in the market and I offered to pay $2 a bushel for wheat, with a capacity to purchase, wouldn't that have a tendency to raise the price of wheat?

Mr. ALLEN. No; you would have to have a pretty good big wad to make any difference.

Mr. WINGO. Well, you are going contrary to the rules that govern every market in the world. They say that an offering at a lower price hammers down the market; that an offering at a higher price lifts it up, doesn't it?

Mr. ALLEN. But the market is already established when you seek to float your securities. You don't make the market. The market is made when you step into the market.

Mr. WINGO. Well, I can't agree with you there. I think the market on credits is like the market on everything else; people take into consideration the conditions of business, their necessities and

everything else. You will have a tight money market to-day just like you will have maybe a high wheat market, and to-morrow it will ease off, the demand will lessen. I think the price of credit is just like the price of commodities; I think it is governed by many of the same laws. But now when the Secretary goes out he does have a greater effect than you going out, but you have a greater effect going out than, say, if some private corporation goes out, like the Pennsylvania Railroad, because you have tax exemption, you are under Government control and the general investing public regards your security as a kind of a quasi governmental security. Of course it is not, but that is the viewpoint. Now if you go out and offer one of these prime basic securities in the market at an increased rate, isn't that automatically pegging the credit market at a higher rate, and doesn't everything suffer by it?

Mr. ALLEN. No, I think not. You take the market on school bonds, municipals and that class of securities, it varies from week to week. Now, you have to make your organization; you have to take the market. That has been my experience. You might just as well say that because I would offer 200,000 bushels of oats in Chicago at 2 cents under the Chicago market I would influence the local market on oats, but it would not do it, somebody would grab it up quick.

Mr. STEVENSON. I want to ask you one question. We passed an act here last winter authorizing the liquidation of joint stock farm banks and authorizing the Federal Farm Loan system to take over the assets of those banks, the loans. Have any banks liquidated under that provision?

Mr. ALLEN. I could not say. I understand that three have liquidated and that one more is now liquidating.

Mr. STEVENSON. I was curious to know what the effect had been. I knew some of them at that time wanted to liquidate.

Mr. ALLEN. I am not posted on that.

Mr. STEVENSON. Would the raising of the rate of interest tend to check the liquidation of those banks, or would it have any effect on that, do you think?

Mr. ALLEN. I did not get that question.

Mr. STEVENSON. Would the raising of the rate of interest kave any effect on whether more of those banks would liquidate or not? Would it have any effect on that tendency? They seem not to be making money, I think, is the reason they wanted to liquidate.

Mr. ALLEN. Well, some of them did not get started hardly at all.

Mr. STEVENSON. That litigation stopped some of them, I know before they got a good start.

Mr. ALLEN. I don't imagine that that cut much figure with the banks still in, because they are most of them in far enough where they are making expenses, and they are willing to see the thing through. That would be my judgment.

The CHAIRMAN. How many mortgages has your bank taken?

Mr. ALLEN. We have taken about $1,800,000.

The CHAIRMAN. How many more could you take?

Mr. ALLEN. We could take about $2,000,000—you know I said $1,800,000; that is too much. We got $1,300,000 in bonds—we have sold $1,300,000 in bonds and have $200,000 in bonds on hand. We are borrowing $180,000.

Mr. CHAIRMAN. How many more could you take on?

Mr. ALLEN. We could take on about $2,500,000.

Mr. WINGO. What effect do you figure it would have on the bonds you have already issued at 5 per cent, I believe that is what you issued them at, was it not? What effect would it have if you would put out a new issue of five and a half?

Mr. ALLEN. I don't think it would have any particular effect.

Mr. WINGO. No particular effect?

Mr. ALLEN. I don't think it would. That is, I don't think it would be appreciable.

Mr. WINGO. You think that when an investor was going into the market he would say, "It doesn't make any difference to me whether they pay 5 per cent or 5½ per cent."

Mr. ALLEN. They are selling at a discount now, Mr. Wingo.

Mr. WINGO. I am leaving aside the question of par value. I am talking about the market value. Supposing you were an investor and had $10,000 that you wanted to invest in permanent securities, you would go into the market, to a stockbroker or a bond broker and he would say: "Now, here is a $10,000 bond at 5 per cent issued by this joint-stock land bank, and here is another $10,000 bond of the same bank, but at 5½ per cent interest." Do you think you would say, "It doesn't make any difference to me, just give me whichever one you want to?"

Mr. ALLEN. At the price.

Mr. WINGO. At the same price, that is what I am talking about.

Mr. ALLEN. No; at the discount price and the prior price.

Mr. WINGO. What effect would it have on the market price?

The CHAIRMAN. He just said a few moments ago that the present market on fives was 94, and with the increase of one-half per cent it would make them par, so the difference would be 6 per cent. That ratio would probably be maintained, if he is correct in his assertion.

Mr. WINGO. Do you think, then, if you issued some 5½ per cent bonds, that that would automatically cause the market to go to 100 per cent on 5 per cent bonds?

Mr. ALLEN. No; I didn't say that.

Mr. WINGO. Wouldn't it depress the market value?

Mr. ALLEN. No; I don't think so.

Mr. WINGO. What would remove that class of bonds from the ordinary rules and results that experience shows affects other bonds?

Mr. ALLEN. Which class do you mean, 5 per cent?

Mr. WINGO. You say it would not affect them. Everybody agrees that it would affect every other class of securities. If the Government puts out—we have had a concrete illustration of it; we have seen a break in the price of Liberty bonds in 10 minutes after it was announced that a higher rate would be paid even for certificates, short-term certificates, and if it affects Government bonds and causes a break in the market at the lower price issue, why shouldn't the same law, the natural law, affect your joint-stock land bonds?

Mr. ALLEN. I don't know whether you get my idea or not. Here is the point: The market is fixed now, your market for 5 per cent bonds, which are bringing about 94, they were the last I knew; now, the 5 per cent bonds that sell at 94 pays about 5½ per cent income. You get the point? In other words, the 5 per cent bond has, we will

say, two years before the option of prepayment; now, if you buy a 5 per cent bond you discount that 5 per cent bond for the full period of time which it has to run, 18 years.

Mr. WINGO. I catch what you are driving at. In other words, a 5 per cent bond is purchased at 94 by the investor because he wants a 5½ per cent return?

Mr. ALLEN. Certainly.

Mr. WINGO. Now, if you put out 5½ per cent bonds, then you figure that the 5½ per cent bond will go at par, whether the 5 per cent bond is still 94 or not?

Mr. ALLEN. Yes, sir.

Mr. WINGO. But suppose instead of raising the basic credit rate, if you lowered it, wouldn't that bring up the price of your 5 per cent?

Mr. ALLEN. I think not, Mr. Wingo. That is not the experience of this class of securities.

Mr. WINGO. In other words, you think they will stay off the market; that the investors will not go out and invest at all at the present market, but will stay off until they get a high enough rate to bring them into the market?

Mr. ALLEN. I think the investor would buy just as quickly at 94, maybe sooner, than he would the 5½ or the others, depending on whether or not he wants to take a chance on that bond coming to par, and he gets the benefit of the increase.

The CHAIRMAN. Supposing now that the association banks increase their rates to 5½ per cent, how would that affect the present bondholders or the stockholders of the association? That is more of a cooperative proposition. Wouldn't there be a distinction there? Wouldn't there be an unfair advantage over those who come in now and those who came in previously?

Mr. ALLEN. The demand for money depends on the market, just like other commodities.

The CHAIRMAN. And then the price would affect the earnings?

Mr. ALLEN. Yes, sir.

Mr. WINGO. Let me get this final question. I may be wrong about this, and if I am wrong in my theory I want to be corrected.

Suppose that we should pass this bill, and you would increase your interest rates one-half of 1 per cent and to-morrow the Secretary of the Treasury should issue some new certificates, and he should put them up one-half of 1 per cent above the last issue, and the next industrial issue or the next issue that any railroad or other industrial plant might put out would be one-half of 1 per cent above what they have been paying; in other words, suppose that everybody increased their interest rate on their securities that they put out just one-half of 1 per cent, would you be any better off or not?

Mr. ALLEN. I don't suppose we would.

Mr. WINGO. Einstein's theory of relativity would come in there, wouldn't it? [Laughter.] Security rates are relative in the last analysis in the viewpoint of the investor. He selects securities with reference to the yield that is coming in, as well as the safety of the investment. Now, if all of them go up, or if any standard stock increases the price that it pays for credit, that compels everybody else that competes with them to meet the competition by a corresponding raise, does it not?

Mr. ALLEN. Yes; but, Mr. Wingo, you make an assumption that is not correct. We are not increasing the rate; we are simply meeting the market.

Mr. WINGO. Well, suppose everybody else met the market; you would be in the same shape, wouldn't you?

Mr. ALLEN. They do meet it.

Mr. WINGO. Then you would have a general rise in price of credits instead of a lowering, that everybody thinks is necessary now.

Mr. ALLEN. No, you don't get the right idea of this, I don't believe.

Mr. WINGO. Evidently I don't.

Mr. ALLEN. The facts are that you have to meet the market to sell. Now you either have to sell at par or you have to sell at a discount, or you have to sell at a premium. There was a time when our bonds sold at $1 and half a point. Now that was the market. Now again the market may be par on 5. Whenever that market is par on 5 you are not going to put out a 5½. That is simple. And what we say is that we want to be permitted to meet the market. That is all.

Mr. WINGO. You figure the market makes the price and the issues have nothing to do with the market?

Mr. ALLEN. No; if the market was 5.20, we will say, our bonds would sell at a premium.

Mr. WINGO. I was under the impression that the volume of trade had something to do with the market.

Mr. ALLEN. Of course, if you put out a billion dollars, or half a billion dollars, I don't know what the market would take, but $20,000,000 is a very small issue in this class of market.

Mr. LUCE. Can you issue below par? Are you allowed to do that?

Mr. ALLEN. No; we are not permitted to sell below par.

Mr. LUCE. What is your Iowa rate on school bonds?

Mr. ALLEN. Five and a half to six, depending on the district.

Mr. LUCE. How do you meet that with the 5 per cent rate?

Mr. ALLEN. The last bonds sold out there, 6 per cent bonds, sold at 98.

Mr. LUCE. How can you meet that with a 5 per cent bond?

Mr. ALLEN. Because of the difference in the securities, long-time securities. You understand this bond market is a peculiar market. A 20-year nonoptional bond will sell a great deal better than a 20-year bond with a 5-year option, and a 20-year bond with a 10-year option will sell better than a 5-year option, and so on. The bond market depends upon how the man wants to get his money out of it. If he wants it to run 20 years, he wants a 20-year bond.

Now I just want to submit this one proposition in answer to Mr. Wingo, on the question of the size of the loan or the question of the ownership of farms, and that is this: We never ask in any other line of business whether a man shall own $1,000 worth or $10,000 worth or $100,000 worth of property; we don't ask whether certain lines of industry are controlled—whether certain men control all of a certain industry. That has never been considered, or we never penalize a man for that.

The CHAIRMAN. Suppose you have applications for loans—say you had one application for $50,000 and you had 10 other applications for $5,000, which loan would you take?

Mr. ALLEN. Our practice has been this: With all small loans—the Farm Loan Board wanted those loans when they were fun-

tioning, and we tried to turn to the Farm Loan Board, to the Federal farm loan banks, all of the small loans, because they were seeking those loans when they were functioning. We felt that that was their field and that we had really no business to be in there.

The CHAIRMAN. The farm loan associations were soliciting loans, weren't they?

Mr. ALLEN. Yes; when they were stopped. Now there are some other things here in connection with this matter that I would like to put into the record, but I will not take your time further. You have all been here a good while now, but I certainly want to say this, that I believe without any question whatever the dual system will prove and is proving to be by far the best method; I don't believe there is any reason in the world why there should be conflict, and I don't believe there will be any conflict between the operating of the two classes of banks; neither do I believe that it is wise to limit the operations of this law to the small farmer or the poor farmer or any particular class of farmers.

The big problem is to keep men that are far-sighted, industrious, on the farms. The worst curse that has ever befallen the American people in the rural sections has been the part-time five-year loan. It has driven more men off the farms of the United States than you have on the farms, because that gets all of us, and the five-year loan has to be paid when due or renewed, and most of the companies refuse to renew them in the States, with the result that you drive the widow and the children off of the farms to the cities, and every lawyer that has practiced at law knows that that is about what happens when death overtakes the head of the family, and the result is that your long-time loan enables the widow to stay on and gradually pay off the loans, and your family stays on the farm.

The CHAIRMAN. Gentlemen, it is 4.30. There are some other people here who want to be heard. I don't want to hold the committee here unnecessarily. Suppose we hear Mr. Powell before we adjourn?

STATEMENT OF MR. W. P. POWELL, SECRETARY OF THE JOINT-STOCK LAND BANK ASSOCIATION.

Mr. POWELL. I merely want to correct an impression that seems to prevail around the table, that the loans of the joint-stock land banks are all of the big $25,000 and $37,500 kind. An analysis of the [illegible],000,000 of loans that have been made by these banks shows that the average loan is between $8,000 and $9,000. I think that is something for you to bear in mind, Mr. Wingo.

Another point that I want to call to your attention is this—I wish Mr. Strong was here, because he was the man that raised the point—somebody has to finance that farmer who is producing what we call the "commercial surplus." If the man in the city is going to be able to eat, somebody has got to provide the means of financing the man who produces the stuff that is shipped off the farm. Now, your farmer who is developing a farm and can get a $2,000 loan or a $3,000 loan is a necessary man, but he will be a great deal more necessary after you get your farm developed and he becomes a producer who produces a commercial surplus, that will do something more than take care of his own needs, than he is as a small farmer struggling along

trying to take care of himself and raise a family merely. The kind of men who borrow sums in excess of $10,000 are the kind of men who produce the live stock that fills the stockyards and furnishes the meat that we in the cities eat. He is the kind of man that furnishes the surplus grain that fills your elevators. He needs money just the same as the other fellow needs it, and what you are financing, gentlemen, is not individuals; you are financing an industry, and the tax exemption that we discussed is based upon this fundamental idea, that agriculture is a fundamental, underlying industry, and requires adequate capital at a rate of interest and on terms which it can handle. That is the reason for tax exemption, and that is the reason for your farm-loan system.

I know that there is an element of truth in what your chairman said, that the thought in connection with the farm loan act was to take care of the little fellow. That is one of the thoughts; but there were two thoughts, and the three members of this committee who were in Congress at the time this law was passed will recall that Congressman Moss, of Indiana, was the man who insisted that we should have a type of bank which could finance the type of man who was already in the farming business and needed money on which to farm.

I think that is all I have to say. I thank you.

The CHAIRMAN. Now we will hear you, Mr. Silver.

STATEMENT OF MR. GRAY SILVER, WASHINGTON, D. C., REPRESENTING AMERICAN FARM BUREAU FEDERATION.

Mr. SILVER. Mr. Chairman and gentlemen of the committee, all of you, I think, realize that the country banks at this time are not functioning in the way as to give farmers credit, especially the long-time credit that is necessary toward the conduct of their business.

The CHAIRMAN. Do you favor the extension of time to nine months on farm paper in the Federal reserve system and two years on cattle paper?

Mr. SILVER. Mr. Chairman, in answer to that question I would say that I do not think we should make too long terms out of deposit banks. Their long-time loans should be brought out in some other way. There are different kinds of money. The deposit bank often receives money that the person depositing may need to use in the near future in less time than the maturity of such loans as you refer to; others have money to invest, and the long-time loan must be made in such a way that the person with money to invest will be attracted.

I would hate to see anything done to the Federal reserve system that would interfere with the commercial bank or that would cause any uneasiness on the part of depositors, tying their money up so that there might be some question as to their getting it promptly and readily when they wanted it. However, there must be some method of approach to the great national reservoir of money and credit for the farmer. His local bank does not have sufficient money offered to take care of the needs of the community, and this bank, this farm-loan bank, is a method of approach; it is the way and the only way for long-time money that the farmer has in getting credit.

He is not known away from home, he has no banking connections away from home, but through this system he can reach moneys and credits that are not available to his local banking institutions.

At this time the rate is so limited on these securities that they are not salable, and unless that rate is increased the farmer has no method of approaching other credit than what the local banks can give him, and they can not give him either long-time credit or on the amortization plan. Now, they have been good; the local banks have been good; they have taken care of farmers in a great many instances until they have jeopardized their welfare, and when they have done that they have not financed him.

Under the distribution of credits by the Federal reserve, it is based on the amount of capital and deposits that the member banks have taken with them, and on that distribution of credit it does not in some places give many of these rural communities anything like their needs. So there must be some way of approach to other money, and this is the only instrument with the long-time approach. It will take much money in addition to what the local banks can give, and therefore we are very earnestly advocating that this privilege of a higher rate be granted to the farm loan banks.

The CHAIRMAN. You think it ought to be 5½ per cent or let the Farm Loan Board fix the rates? Of course at any time it could not be higher than the amount they charge borrowers.

Mr. SILVER. Personally, I have no objections to the Farm Loan Board being given a free hand in that matter, for I know that money is as other commodities, it varies in price and must be bought on the market. I am not sure but what the Secretary of the Treasury was right this morning when he questioned whether that maximum of 5½ would take place. If 5½ is not enough, I would like to see it higher.

The CHAIRMAN. How can banks function with a higher rate and pay their expenses?

Mr. SILVER. I am basing my statement on the belief of the Farm Loan Board and those representing the joint stock banks that that would be a sufficient amount.

The CHAIRMAN. I think it is admitted generally that we are practically in an 8 per cent money market at the present time; under those circumstances would you advocate the raising of the rate to borrowers above 6 per cent, if it were necessary?

Mr. SILVER. If it were necessary I would say so, for the farmer must be financed if he is to function, and unless the farmer can carry on his business the balance of our business is not worth much.

Now, I am not advocating high-priced money, but I am advocating the instrument of the authorization, the authorization that will permit him to buy money in the market at whatever money may be worth.

The CHAIRMAN. You are speaking now as representing the American Farm Bureau Federation?

Mr. SILVER. Yes, sir.

The CHAIRMAN. In that connection it occurs to me just now that we have some unfinished hearings of Mr. Howard, president of that bureau, who came before our committee, and can you enlighten the committee as to when he might be able to finish those hearings?

Mr. SILVER. I am expecting Mr. Howard here about the 14th of this month, and it will be his very great pleasure when here to come before the committee.

Unless there are some other questions, I believe that is all I have.

Mr. E. D. CHASSELL, secretary of the Farm Mortgage Bankers' Association. Some time when the committee has time I would like to take 10 or 15 minutes to show that this is a discrimination in favor of the few against the many.

Mr. WINGO. I don't object to hearing him now on that. I have got to leave pretty soon.

Mr. CLAGUE. Mr. Chairman, I understood the Federal Land Board wanted to be heard. It is perfectly satisfactory to me. We only want a few minutes, and it will be perfectly satisfactory for us to appear some other time.

The CHAIRMAN. In view of that statement, I think it is proper for the committee to recess now. It is my understanding that the committee will reconvene on Thursday morning at 10.30. I suggest, therefore, that we adjourn now until Thursday morning.

(Whereupon, at 4.45 o'clock p. m., the committee adjourned until 10.30 o'clock a. m., Thursday, June 9, 1921.)

(E. D. Chassell, secretary of the Farm Mortgage Bankers' Association of America, filed the following statement as time for adjournment had come:)

OBJECTIONS TO INCREASING INTEREST RATES ON TAX-EXEMPT BONDS.

In times of war the fortunes of a nation rest upon the Committees on Military and Naval Affairs.

In times of peace, when faced by financial crises, responsibility for the prosperity and commercial existence of a nation rests upon the Committee on Banking and Currency. When the storms of financial disaster threaten the existence of business institutions, success or failure depends upon the wisdom of the recommendations of this committee.

At the present time all business is suffering from the reaction caused by inflation and riotous expenditures brought about by war conditions.

HIGHER PRICES NEEDED FOR FARM PRODUCTS.

Agriculture is one of the most severe sufferers. The depression in prices of agricultural products has caused great hardships. The situation was very accurately described by Secretary of Agriculture Wallace in a recent speech in New York when he said:

"Just now we are in the midst of a serious agricultural depression, caused by unusually large crops and the breaking down of our foreign market and, in part, of our domestic market. This depression illustrates how intimately agriculture is connected with the business of the nation."

Heavy production and depressed markets are the reasons for low prices and depression. The legislation asked for will benefit the stockholders of joint stock land banks but not the farmers.

CAN NOT LOAN A DOLLAR IN 26 STATES.

You have before you for consideration a bill to grant special privileges to 23 privately-owned corporations, transacting business in 22 States and prohibited by law from transacting business in the other 26 States. Special exemptions and privileges have already been granted to these 23 banks, greater than were ever before granted to private institutions in this country. They have failed to make good on their promises and now they come to you and ask for still further concessions. They ask you for the right to issue 5½ per cent tax-exempt bonds, endowed with all the privileges which the Government granted to its 3½ per cent bonds issued in time of great national danger. These 23 banks ask that their 5½ per cent securities may be offered for sale in the markets of the world free from all surtaxes, when the Liberty bonds which bring only 4 per cent and 4¼ per cent are subject to surtaxes.

So much misinformation has been presented to your committee in support of this measure that your attention ought to be now directed to numerous errors and omissions in order that you may be able to weigh the probabilities of the effects of the legislation now sought.

A SERIES OF FAILURES TO PERFORM.

The history of the joint-stock land banks has been a continuous succession of promises. followed by failures to perform.

Their friends declare that their continuous failure has been due to the opposition of the Farm Mortgage Bankers Association of America. In this they are mistaken. Their failure is due to basic faults in their charters caused by defects in the law under which they are organized, and it is further due to their attempt to overcome economic and financial laws. Economic laws are supreme and can no more be overcome by legislation and sharp practices than can the law of gravitation. There would be a thousand joint-stock land banks to-day instead of 23 were it not for these reasons. Experienced financiers decline to engage in enterprises resting on such unreliable foundations.

In addition to these important reasons, the failure of the joint-stock land banks is due to serious blunders in their financial policies which no amount of congressional legislation can now rectify. These banks always have been great promisers and poor performers. Before taking up in detail the defects of the system I call your attention to a promise which must be still fresh in your minds. On the 9th of May of this year, their representatives appeared before the Senate Committee on Banking and Currency, asking for the defeat of certain bills there pending. I quote from page 4 of the hearings before the Senate committee:

"We shall endeavor to show you by information collected within the last 30 days from rural communities, by small country banks:

"First. That the present situation is indeed grave and requires immediate relief. * * *

"Second, that the joint-stock land banks already organized and in the field could relieve the situation in thirty days if permitted to function.

"The CHAIRMAN. There is nothing that interferes with your functioning now.

"Mr. POWELL. Oh, yes.

"The CHAIRMAN. What is it?

"Mr. POWELL. The fact that this pending legislation hanging over our heads continually affects the bond market. It has been here for a year and has been a more dangerous and more serious thing to us than the case pending in the Supreme Court."

The committee granted the favors asked and reported unfavorably on the bills.

The term of 30 days expired June 8, but none of the promised relief had then been given. The banks were just as dead then as they were in May.

COURT DECIDED IN THEIR FAVOR.

During the year 1920 the newspapers were flooded with statements to the effect that the financial stringency in agriculture was caused by a suit in the Supreme Court to test the constitutionality of farm loan bonds. The public was assured that if that case was decided in favor of the land banks all the frozen rivers of credit would be thawed out and money would be plentiful at once.

A favorable decision was rendered February 28, 1921. Immediately a meeting of the joint-stock land banks association was held and reports were sent out that a large issue of joint-stock land bank bonds would at once be marketed, and the financial difficulties of the country would be relieved. That promise failed. Nearly four months have elapsed and they have afforded no relief.

CONGRESS CHANGED BOND LIMITATION.

As originally provided by law, the bonds of these banks were redeemable in five years. Last winter the Federal Farm Loan Board appealed to the Congress and asked that the period of redemption be extended to 10 years, the claim being made that it would render the bonds more readily salable. That period was extended by act of Congress, but still none of the joint-stock land banks' bonds have been marketed and no relief has been afforded to farm borrowers.

BANKS HAVE DECREASED IN NUMBERS.

Your committee is now asked to grant a privilege unheard of in the financial legislation of any civilized country in the world. Before you grant that privilege consider well the probabilities of its affording the relief desired. On page 31 of Senate hearings

of January, 1920, a list of 31 joint stock land banks is given. Some of these banks surrendered their charters without doing any business whatever. Several of them have gone into liquidation.

On page 33 of the Senate hearings of May 9, 1921, only 23 of the joint stock land banks are listed as still alive and desirous of doing business. These 23 are the ones who now appeal to you for the privilege of selling 5½ per cent tax-exempt bonds in order that they may relieve the financial situation of agriculture in the United States.

EIGHT BANKS LOAN IN IOWA.

Each one of these banks is permitted to make loans in two States, and two States only—the State in which the bank is located and one State adjoining. The 23 banks were not organized for the purpose of aiding agriculture in the United States. They were created in order that their stockholders might make money out of agriculture through the special privileges granted them by Congress. This is very clearly shown by their distribution. They sought the places where they thought the most money could be made. Nine of these banks have been authorized to do business in the State of Iowa, two have consolidated, but eight may now loan in Iowa; five of them may make loans in Minnesota, and four in Illinois; three may make loans in Oklahoma; three may make loans in Texas. Others of the 22 States have the privilege of securing loans from three, two, and in many cases only one such bank.

Twenty-six of the States have no such joint-stock land bank service. Following the Atlantic and Gulf States from New Brunswick to Mexico only four States bordering on the coast have joint-stock land banks. They are Virginia, North Carolina, Mississippi, and Texas. From the Potomac River to the Canadian line and from Ohio to Cape Cod, not a dollar can be loaned by joint-stock land banks. New England New York, Pennsylvania, New Jersey, and Maryland can not be aided by them. Not a dollar can be borrowed from joint-stock land banks to relieve the needs of farmers in the vast area from North Carolina to Mississippi. The cattle raisers of Colorado, Arizona, and New Mexico the wool producers of Wyoming, Nevada, Utah, Washington, and North Dakota, the tobacco farmers of Kentucky, the rice and sugar raisers of Louisiana, the fruit growers of Michigan are not privileged to borrow a dollar from joint-stock land banks.

Even if you pass this legislation, more than half of the United States will be shut out by territorial limitation from any possible benefit which these banks can afford.

Many witnesses have testified that tax-exempt securities are absorbing the available money of the country and causing higher rates to be paid by those who are compelled to borrow on taxable securities.

RATES WILL BE RAISED IN 26 STATES.

What will be the result of this legislation if it is enacted? The money obtained from these tax-exempt 5½ per cent bonds will be loaned in the 22 States where the law permits the banks to do business, and the difficulty of securing money in the other 26 States will thereby be increased and the rate will be raised to the disadvantage of citizens of 26 States.

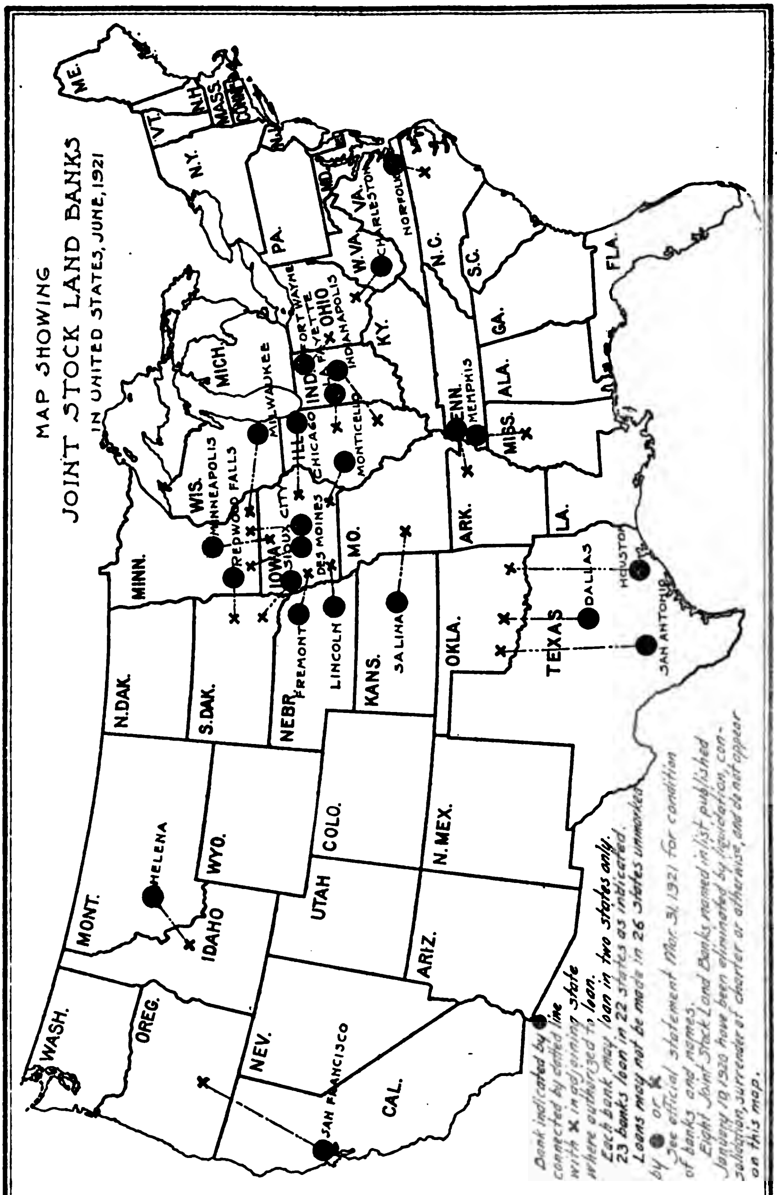
No one can deny that these banks were organized for private gain and not for public benefit.

What has been the result of their operations. Iowa, where nine banks were originally authorized to operate, and where the most loans have been made, affords the best evidence.

Instead of reducing interest rates, the rates of interest charged to farmers in that State have been raised since the joint stock land banks entered the field. The brief filed in the Supreme Court in the test case by the attorneys for the joint stock land banks contained a table showing the interest rates in the various States. In Iowa the average rate was shown as 5.6 per cent to the investor, costing the borrower 5.9 per cent, three-tenths of 1 per cent being the commission charged on the average by private loan agents. As this evidence was presented by their own attorneys in their own case, they can not well deny its correctness now. The joint-stock land banks loaned in Iowa at 6 per cent. Through the tax exemption of their bonds they were at that time able to sell them at 5 per cent, giving to them a net profit or commission of 1 per cent per year. Several of these joint-stock land banks were organized on the representation to stockholders that the profits would be 1 per cent per year for 33 years on every loan made.

Although the rate of interest charged on these loans was higher than the average rate paid to private loan agents for many preceding years, an enormous amount of loans were made.

There were two reasons for this. Prior to 1918 the insurance companies and leading loan agencies had limited the loans to $65 and $75 per acre. The joint-stock land banks raised the loan limit to $100 per acre. Another reason was that the borrowers were told that the loan would pay off itself; that by paying 1 per cent for 33 years they



could pay off 100 per cent of indebtedness. They said that the loan would never bother the borrower; he could pay it off just like taxes and never know it. These fairy tales of finance told by agents supposed to have the indorsement of the Government were believed more readily than promises of wealth given by salesmen of oil stocks.

Men with land valued at $200 an acre borrowed $100 per acre upon it and then offered the land for sale at $300 per acre. They told the new purchaser that he was really only paying $200 an acre for the land because the land-bank mortgage of $100 an acre would never be felt; that it would be paid off like taxes and would never cause any inconvenience. The Federal land banks loaned about $24,000,000 in Iowa. More joint-stock land banks operated in Iowa than in any other State of the Union. On the strength of what they thought was cheap money that never would have to be paid, Iowa farmers entered into a fierce competition for more land. They bid up the prices until they were in many cases ruinously high. The farmers did not seem to realize that it costs more to pay 5½ per cent on $300 and $400 land values than 6 or 7 per cent on $200 values per acre.

Iowa has suffered a most unfortunate inflation of land prices. This unjustifiable increase in land prices is largely due to the delusion of borrowers who thought they were getting something for nothing in long-time loans from Federal land banks and joint-stock land banks. Their illusions about the magic of "Government loans," as they call them, have now largely been dispelled.

LIBERTY BOND OWNERS WOULD LOSE.

Inquiry is made if it will not further depress the price of previous issues of Liberty bonds if this rate is raised to 5½ per cent. Witnesses for the joint-stock land banks deny that such results will follow. Within the last few days 3½ per cent Liberty bonds went down to 86. Four per cent and 4¼ per cent Liberty bonds are quoted at about 88 or 89. Twenty-two million patriotic citizens who were purchasers of Liberty bonds are entitled to more consideration from Congress than the stockholders of 23 joint-stock land banks.

IOWA SCHOOL BOND RATE RAISED.

To prove the depressing effect of high-rate tax-exempt bonds upon the other securities it is only necessary to cite the experience of the State of Iowa, where one of the witnesses lives. In that State it is required that school bonds shall never be sold below par. The extreme rate permitted by law on Iowa school bonds prior to 1921 was 5 per cent. When the Iowa Legislature was in session last winter it was conclusively demonstrated that Iowa school bonds could not be sold at 5 per cent and it was found necessary to raise the rate to 6 per cent in order to supply the necessary financial aid to the school system.

A few years ago tax-exempt securities at 4 per cent had a ready sale at par. That was before there were so many of them in existence. Since that time the graduated Federal income tax has been adopted and the demand for tax-exempt securities ought to be a great deal stronger now, but the reverse is the case. Although a tax-exempt 5 per cent 20-year bond would be worth $1.46 to a man with an income of a million dollars per year, the millionaire does not pay that price because of the large supply on the market.

SLOW SALE OF FEDERAL LAND BANK BONDS.

Secretary of the Treasury Mellon admitted to this committe that the Federal Farm Loan Board had failed to sell all of the $40,000,000 of 5 per cent Federal land bank bonds offered April 18. Only about $38,000,000 had been sold June 8.

Federal Farm Loan Commissioner Lobdell asked this committee to recommend a temporary grant of $50,000,000 in cash to the Federal land banks, because, he said, they could not at this time raise the money by selling bonds. He said that they needed more money to loan now and that the market would not "absorb" any more Federal land bank bonds at this time. He thought they would be able to sell another issue of $50,000,000 in about four months.

People of moderate means are now buying Liberty bonds on a 5½ per cent and 6 per cent basis. These Liberty bonds are subject to surtax, but people of moderate wealth pay very little surtax. The very wealthy investors are attracted by farm loan bonds because these bonds are exempt from surtaxes. Having invested as much as they desire, they withdraw from the market and it falls flat. When they have accumulated more funds for investment in a few months, the market will again be in condition to "absorb" bonds that are exempt from surtax. Millionaires understand the investment business and they do not bid any higher than necessary to get what they want. As the volume of tax-exempt securities increases, the demand for them becomes less active, and they go down in price. The arguments advanced in favor of the $50,000,000 appropriation sustain this point.

LOSING BENEFIT OF TAX EXEMPTION.

Tax exemption will ultimately defeat its own purposes. The wealthy people will buy the tax-exempt securities at a very slight advance over taxable securities and people with small means will purchase the taxable securities.

I quote here from the Babson Investment Bulletin for June, as follows:

"The investment market bears witness to the passing vogue of the 'tax exempts.' Liberty 3½s, by successive new lows, are tending closer into line with taxable war issues of similar term. The latest municipal bond offerings, on a 5.33 per cent basis for long maturities, are on approximately a level with the best taxable 'legals.' Authorization by Congress of a 5½ per cent rate on Federal farm-loan bonds is indicative of further price recession in this field. Privileged financing, it is clear, can oversupply its demand more easily than corporation offerings."

This committee will do a grave injustice to owners of Liberty bonds, to the owners of 4½ per cent and 5 per cent farm-loan bonds, and to all borrowers, if it recommends this bill for passage, raising the interest rate on farm-loan bonds to 5½ per cent.

TEN YEARS BEHIND THE TIMES.

Permit me to point out serious errors in the statements made by witnesses who favor this bill. They contend that the gross amount of farm mortgages in the United States is about $4,000,000,000, and therefore if those were refunded with loans based on tax-exempt securities no serious results would follow.

Their statement as to the amount of farm mortgages in the United States is 10 years behind the times. It is based on the census of 1910.

As a basis for estimating the present mortgage indebtedness, data has been compiled from advance reports of the 1920 Federal census received relative to 11 States, namely, Indiana, Ohio, Idaho, Massachusetts, Tennessee, Utah, Maryland, Alabama, Maine, Florida, and Iowa. These States are so widely scattered and of such varying importance, agriculturally, that this may be fairly considered a typical average group.

In 1910, 221,894 farmers of these 11 States, reporting indebtedness, showed $414,102,620 of mortgage debt, an average of $1,866 per farm.

In 1920, 255,021 farms showed a mortgage debt of $971,845,821, an average debt of $3,775 per farm.

FARM MORTGAGE DEBT HAS EXPANDED.

Reducing the number of farms to the reports of 1910, 221,894 farms in 1920 carried mortgage debt to the amount of $837,649,850. This shows an average increase in the States of over 102 per cent.

The Federal census does not pretend to give the total mortgage indebtedness on farms. It merely gives the mortgage indebtedness on part of the farms occupied by owners. Approximately about one-fourth of the farms are reporting in detail.

The Federal census reports approximately 50 per cent of all farms subject to mortgage. In some States the percentage is higher than one-half, and in others slightly below one-half, but details are not available.

It has been generally estimated that the farm mortgages of the country amount to about $4,000,000,000. These figures are based upon the census of 1910 and desultory casual subsequent investigations.

An investigation made by the Curtis Publishing Co. in 1918 produced an estimate of $2,500,000,000 to $3,000,000,000 of unsecured farm debts, a large part of which might be refunded in the form of farm mortgages.

FARM MORTGAGES MIGHT BE $10,000,000,000.

Taking all these facts into consideration, expert statisticians estimate at the present time that the farm mortgage indebtedness of the United States is somewhere between $7,000,000,000 and $8,000,000,000. This added to the floating debt which might be funded as land mortgage loans, would make the total upwards of $10,000,000,000.

To what extent this may be increased by 1930 and by 1940 no one can accurately predict. But there can be no doubt that the gross amount will far exceed that of the present.

GREAT LOSS TO NATIONAL TREASURY.

For every billion of tax-exempt 5 per cent bonds the annual interest paid is $50,000,000. If these bonds were held by individuals receiving average incomes of $1,000,000 per year, an average exemption of 67 per cent would be obtained, causing

an annual loss to the National Treasury of $33,500,000. If the bonds were held by individuals enjoying smaller incomes, so that the average of the incomes held would be subject to a Federal tax of 50 per cent, the annual loss to the National Treasury would be $25,000,000.

When the amount of these bonds reaches $8,000,000,000 the annual loss to the National Treasury will be, respectively, $268,000,000 and $200,000,000, according as the holders of the bonds receive incomes subject to an average of 67 per cent or 50 per cent.

For the year ending December 31, 1920, according to the report of the Daily Bond Buyer, tax-exempt municipals, including both long and short time securities, were issued to the amount of $1,446,935,209. In a recent issue of the Annalist, Mr. Edward Bradford states that $138,000,000 of tax-exempt securities were issued during January and February, 1921.

The decision of the Supreme Court, sustaining the right of Congress to declare private obligations instrumentalities of the Federal Government, opens a way to secure tax exemptions for the obligations of all industrial, commercial, and transportation industries.

JOINT-STOCK BANKS FOR CITIES.

Another bill (H. R. 6958) has been referred to this committee extending the privileges of the farm loan act to the dwellers in towns and cities. If that bill becomes a law, joint stock land banks will be called "Joint stock land and cities home banks." There will then be no end to the tax free 5½ bonds that can be issued on city property as well as farm property.

LANDOWNERS AND WORKERS WILL PAY TAXES.

Unless a halt is called, the privileged industries will combine with each other to still further increase the exemptions, and within a very short time revenues will be raised from land taxes, earned incomes, tariffs, and special imposts.

FARM OWNERS INTERESTED IN STATE AND COUNTY BONDS.

There are about $16,000,000,000 of tax-exempt securities in existence at the present time. It is claimed by witnesses supporting this bill that these bonds are all issued for the benefit of city people and that $426,000,000 of farm loan bonds are the only tax-exempt securities issue for the benefit of agriculture.

Secretary of the Treasury Mellon, in urging the appropriation of $50,000,000 for the Federal land banks, said he believed the system of the Government backing of Federal land banks and joint-stock land banks is not sound in principle. The defenders of the system admit it is bad economics and unfortunate for all taxpayers that any tax-exempt securities were ever issued. Because it was bad to issue $16,000,000,000 of tax-exempt bonds, they propose to remedy the difficulty by financing all agricultural indebtedness with tax-exempt bonds. They would remedy the $16,000,000,000 difficulty by increasing the amount to $24,000,000,000.

There are two serious errors in these claims. The $16,000,000,000 of tax-exempt securities includes State bonds, county bonds, highway bonds, bridge bonds, soldiers' bonus bonds, and numerous other securities in which the benefit, if there is any benefit, is participated in by the farm owner according to the valuation of his property, the same as the city taxpayer. A careful investigation shows that approximately one-third of these tax-exempt securities are those in which farm landowners are interested. About one-third of the population of the United States is agricultural, and about one-third of the wealth of the United States is agricultural, so this distribution of benefits of the tax-exempt $16,000,000,000 of securities does not now show the discrimination claimed.

Another very important distinction between farm-loan bonds and other tax-exempt securities is the exemption from local property taxes. Iowa school bonds, South Dakota rural credit State bonds, Chicago city bonds, and other kinds of similar securities are exempt from Federal taxation, the same as farm-loan bonds, but there the similarity ends. Farm-loan bonds are exempt from local taxes and from State income taxes wherever owned. The other securities when owned outside of the State issuing them, are all liable to State property taxation and to State income taxes in States where taxes are levied on moneys and credits.

STATE AND MUNICIPAL BONDS SUBJECT TO STATE TAXATION.

There is a widespread erroneous opinion regarding the exemption of municipal securities from taxation. A former Secretary of the Treasury, who was the paid attorney of the joint-stock land banks in the constitutionality case, stated at numerous times in his speeches that municipal securities were exempt from State, municipal, and other taxes, the same as Federal land bank bonds. This same erroneous statement has been widely circulated in the literature of the Federal Farm Loan Board. It has also been repeated in millions of copies of agricultural papers. All of these parties are mistaken.

In many States municipal securities are subject to taxation in the State in which they are issued. Under the National Constitution all States may tax their own bonds and also the bonds of other States and their subsidiary corporations.

DISCRIMINATION AGAINST SOUTH DAKOTA.

As a sample of the injustice done to State and municipal securities by the total tax exemption of farm-loan bonds, we will take the South Dakota rural credit State bonds. A South Dakota rural credit State bond bearing 5 per cent, if purchased by a citizen of Iowa, would be subject to an annual tax of one-half of 1 per cent, while a joint-stock land bank bond, issued for a South Dakota loan would be tax free. This certainly is a discrimination against the South Dakota bonds. The owner of South Dakota rural credit State bonds living in the State of Wisconsin would be subject to an annual State income tax on the interest received. The same party living in the State of Wisconsin would be exempt from paying any State income tax on interest received from joint-stock land-bank bonds which he might own.

DO NOT WANT CHEAPER FARM PRODUCTS.

None of the farm organizations have appeared before this committee asking for legislation to reduce the price of farm products. This bill is alleged to be for the benefit of agriculture.

A leading witness for the joint-stock land banks has told the committee that the banks should be sustained so that they can make big loans to big farmers to enable them to produce cheap food for city residents.

Is it not about time to stop talking nonsense about reducing the price of farm products by legislation. The price is already too low. Producers of cotton, corn, wheat, and tobacco are working night and day to increase the prices even to the extent of reducing the acreage.

APPLY THE ACID TEST.

Having considered the injustice that will be done to other bond owners and farmers through the enactment of this law, the committee should apply the acid test and determine whether or not the banks will be able to sell the bonds and furnish any money in any State at any price if the increased rate is granted.

In order to decide that, it is necessary to consider the condition of the banks. On page 33 of the hearings before the Senate Committee on Banking and Currency on May 10, 1921, an official statement appears. It was prepared from the records of the Farm Loan Board and shows the gross income, deductions from income, expenses, etc., of the joint stock land banks from organization to March 31, 1921. Six of the banks are shown to have lost money. One has lost $37,841.34; another has lost $19,327.03, and others varying amounts. As the statement was offered by a witness for the banks its introduction here can not be objected to by them.

Statement prepared from the records of the Farm Loan Board, showing gross income, deductions from income, expenses, etc., of the joint-stock land banks from organization to Mar. 31, 1921.

Joint-stock land bank and location.	Date chartered.	Number of months operating at Mar. 31, 1921.	Gross income from organization to Mar. 31, 1921.	Deductions from income (farm loan bond interest, etc.).	Expenses to Mar. 31, 1921.	Dividends paid to Mar. 31, 1921.	Carried to reserve account to Mar. 31, 1921.	Undivided profits Mar. 31, 1921.	Average rate profit per annum.	Excess of expenses over earnings Mar. 31, 1921.	Average rate loss per annum.
									Per cent.		Per cent.
Iowa Joint Stock Land Bank, of Sioux City, Iowa	Apr. 24, 1917	47	$316,332.62	$184,736.20	$40,022.31	$41,250.00	$22,068.07	$28,256.04	8.3		
Virginian Joint Stock Land Bank, of Charleston, W. Va.	May 7, 1917	46	563,058.53	340,854.43	153,632.99	40,000.00	17,073.10	11,498.01	7.2		
Fletcher Joint Stock Land Bank, of Indianapolis, Ind.	June 28, 1917	45	679,409.99	575,661.27	92,852.67			10,896.05	1.0		
First Joint Stock Land Bank, of Chicago, Ill.	July 25, 1917	44	2,272,372.12	1,819,944.19	171,627.19	172,674.00	80,000.00	28,126.74	10.2		
Liberty Joint Stock Land Bank, of Salina, Kans.	Jan. 9, 1918	38	1,032,383.57	816,514.01	68,908.83	88,020.83	36,227.05	22,712.85	11.1		
Mississippi Joint Stock Land Bank, of Memphis, Tenn.	June 22, 1918	33	142,642.38	96,700.19	17,296.39			28,645.80	4.2		
Arkansas Joint Stock Land Bank, of Memphis, Tenn.	....do......	33	113,588.86	75,574.66	15,831.53			22,182.67	3.2		
Lincoln Joint Stock Land Bank, of Lincoln, Nebr.	July 12, 1918	32	1,034,834.41	808,324.77	145,179.82	54,729.00	18,620.82	7,980.00	7.0		
Bankers Joint Stock Land Bank, of Milwaukee, Wis.	Sept. 6, 1918	30	502,254.71	310,714.53	173,119.25	12,500.00	5,000.00	920.92	2.9		
First Joint Stock Land Bank, of Fort Wayne, Ind.	Dec. 20, 1918	27	180,672.82	135,533.81	28,358.75			16,780.26	2.9		
First Joint Stock Land Bank, of Minneapolis, Minn.	Jan. 14, 1919	26	195,120.91	135,744.90	49,963.19		1,200.00	8,212.82	1.7		
Illinois Joint Stock Land Bank, of Monticello, Ill.	Jan. 24, 1919	26	271,894.21	198,723.37	56,522.81	10,000.00	4,000.00	2,648.03	3.1		
Montana Joint Stock Land Bank, of Helena, Mont.	Apr. 15, 1919	23	107,090.65	74,974.54	51,443.14					$19,327.03	4.0
Fremont Joint Stock Land Bank, of Fremont, Nebr.	Apr. 17, 1919	23	204,780.97	154,176.62	43,925.85			6,678.50	1.3		
Des Moines Joint Stock Land Bank, of Des Moines, Iowa	Apr. 22, 1919	23	172,972.71	150,738.95	35,081.40					12,847.64	2.7
First Texas Joint Stock Land Bank, of Houston, Tex.	Apr. 23, 1919	23	183,171.51	141,820.77	27,002.65			14,348.09	3.0		
Central Iowa Joint Stock Land Bank, of Des Moines, Iowa	May 15, 1919	22	131,224.68	114,534.78	27,453.99					10,764.09	2.3
Virginia-Carolina Joint Stock Land Bank, of Norfolk, Va.	June 11, 1919	21	55,395.10	32,347.14	20,084.49			2,963.47	.6		
Southern-Minnesota Joint Stock Land Bank, of Redwood Falls, Minn.	June 25, 1919	21	248,238.31	229,161.83	27,955.33					8,878.85	2.

Dallas Joint Stock Land Bank, of Dallas, Tex.	July 3, 1919	20	202, 272. 20	163, 793. 08	76, 320. 46	....	....	....	....	37, 841. 34	9. 0
San Antonio Joint Stock Land Bank, of San Antonio, Tex.	Sept. 15, 1919	19	93, 674. 16	61, 822. 28	46, 489. 04	....	....	....	....	14, 637. 16	3. 7
California Joint Stock Land Bank, of San Francisco, Calif.	Sept. 19, 1919	19	115, 104. 89	59, 307. 66	40, 196. 76	....	....	$15, 600. 47	3. 9	....	....
Lafayette Joint Stock Land Bank, of Lafayette, Ind.	Oct. 1, 1919	18	96, 519. 85	66, 646. 47	13, 181. 78	....	....	16, 691. 60	4. 4	....	....

Net profit per annum on average capital invested by all joint-stock land banks amounts to 2.3 per cent.

The consolidated statement published by the Federal Farm Loan Board showing the condition of the joint stock land banks at the close of business April 30, 1921, shows that they owe, as evidenced by notes payable, $13,959,916.47, or an average of something over half a milllon dollars each, with numerous other liabilities. It also shows that they have on hand farm loan bonds unsold to the amount of $14,449,800. These bonds on hand unsold are listed at par in their statement, but according to the evidence of supporters of this bill their actual market value is not over 94 cents on the dollar.

CAPITAL BEHIND THE BONDS.

Joint stock land banks are permitted to issue bonds to the amount of fifteen times their capital stock. When bonds are issued to that amount, each dollar's worth of bonds has the support of 6⅔ cents of the capital of the joint stock land bank. Each joint stock land bank does business on its own individual responsibility. The farm borrowers are not liable for the debts of the joint stock land banks. The stockholders alone are responsible, and no joint stock land bank is responsible for the bonds of any other joint stock land bank. As each joint stock land bank can issue $15 worth of bonds for every dollar of its capital, and as every dollar of its bonds has only 6⅔ cents of capital behind it to guarantee payment, in addition to the mortgages issued, it is obvious that if joint stock land bank bonds were sold at 93⅓ instead of at par, such sales would completely extinguish the capital stock. It is therefore clear that the law ought not to be amended to permit joint stock land banks to sell their bonds below par or to pay excessive prices for the service of selling bonds, as that would impair their capital.

BONDS MATURE BEFORE LOANS.

Joint-stock land bank loans are made for 33 years. The bonds which furnish the money for these loans run for 20 years. There is one exception to this rule. That is the joint-stock land bank of Sioux City, Iowa. The able financier who is at the head of that bank provided that his loans should run for 20 years only, so that they will be due and payable when the bonds are payable, thus arranging for payment of the bonds at maturity. All the other joint-stock land banks run the risk of getting into trouble when their bonds come due in 20 years. If the rate of interest is higher then than when the bonds are issued, it will be necessary for them to issue new bonds for the remaining 13 years at a higher rate in order to carry their loans, and they will suffer a loss.

BUSINESS PRUDENCE FORGOTTEN.

There is another serious blunder in the farm loan act. As originally enacted, the law provided that farm loans might be payable at the option of the borrower at any time after five years. It also provided that farm loan bonds might be payable at the option of the bank at any time after the expiration of five years. This was good business and a protection to the bank. Last winter, casting prudence to the winds, the Farm Loan Board appealed to Congress to extend the redemption period of farm loan bonds from 5 years to 10 years. Congress granted the request. If this bill passes Congress, the joint-stock land banks will issue 5½ per cent bonds, which can not be payable for 10 years. If interest rates go down, the farm borrowers will be able to pay off their loans and refund their farm mortgages at the end of five years. This will leave the joint-stock land banks owing on 5½ per cent bonds not redeemable for a further period of five years. They will, therefore, be obliged to carry these bonds at a loss for that period.

CATCH THEM COMING AND GOING.

Ordinary prudent business men are careful about engaging in extensive enterprises in which the hazards are not equally balanced. The farm loan system is now managed on the uneconomic plan of permitting the borrower and the investor to catch them both coming and going. At the end of 20 years, if the interest rates are higher, the owner of a farm loan bond will insist on payment and the land banks will be obliged to refund at a loss. If the interest rates are lower five years from now than they are at the present time, the farm borrower can refund his loan and pay off his debt, but the land banks will be tied up with a high-rate bond for another five years.

EFFECT OF REDUCING MARGIN.

The statement filed by the joint-stock land banks themselves at the hearing of the Senate committee shows that six of the banks lost money doing business on a margin of 1 per cent. Several others made only nominal profits and no allowances in the statement is made for shrinkage in assets below book values. The bonds are now quoted at 94 according to the chief witness for the banks. Would they be any more salable if the working margin was reduced one-half by the passage of this bill?

At the present time United States securities can be purchased to yield 5½ per cent. The security on both principal and interest is absolute. Municipal securities can be purchased in large quantities, exempt from Federal income tax, to yield 5½ per cent and 6 per cent, sometimes more than 6 per cent; school bonds in Iowa can be purchased to yield 5½ per cent and 6 per cent.

In the face of these market conditions, it does not seem at all probable that the passage of this act would open up a market for these bonds. The price would not be sufficiently high to overcome the objections that would be raised by careful investigating investors.

RESULTS WOULD NOT BE FAVORABLE.

If this law is enacted as requested, it will make a bad precedent worse. It will work an injustice to farmers who live outside of the territory where these banks operate; it will have a very depressing effect upon the market price of Liberty bonds and other securities and it will not accomplish the purposes intended, because the bonds will not sell as freely as the promoters of this act expect. The only way to secure equitable treatment for all farmers and other citizens is to abolish all tax exemptions. Farmers as a class can not be benefited by extending special privileges to a few banks.

RICH INVESTORS REFUSE RENEWALS.

Congress desires to help agriculture, but the increase in the amount of tax-exempt securities injures agriculture. Here is an extract from a letter written by an Illinois farm-mortgage banker, who has loaned millions on Illinois farms at 5 per cent and 6 per cent. He says:

"In our mail this morning we have a letter from a client representing one of the largest private firms in the country, and from which we have been drawing funds for the past 50 years at the lowest current rate for farm loans. He says regarding a proposed renewal:

" 'With the present revenue laws in force the net returns would be not more than 2 per cent, even if the rate is increased to 6½ per cent. It is therefore impossible to renew.' "

There is a great source of money supply for farm loans that has been cut off because the wealthy investor prefers to invest his money in tax-exempt securities. The farm mortgage banker is not to blame. Congress is to blame for providing a supply of tax-exempt securities which enables the investor to avoid paying his income taxes. The farm-mortgage banker is obliged to hunt new supplies of money in order to take care of the farm borrowers. He is obliged to get most of t at money from small investors. They insist on receiving the market price for the money they loan, which is higher than the former price charged by the large investor. The loan agent is also put to greater expense in securing the money in small quantities to supply his clients. When the borrower asks for a renewal of the loan he is compelled to say, "I have on hand money left here to be loaned by lawyers, doctors, retired farmers, school-teachers, merchants, and others, who insist that they must have 6½ or 7 per cent. I can not fix the price. The investor fixes the price at which he will sell his money to you."

No member of this committee could do any different. If the supply of tax-exempt securities is increased faster than the capacity of the very wealthy people to absorb them, the rate on both tax-exempt and taxable securities will go still higher. The letter quoted shows the condition in all parts of the country. The mortgage banker who wrote it is a member of a firm that has been in business over 50 years. His company made more money loaning to farmers at 5 and 5½ per cent when money came freely than it does now in loaning at 6½ per cent, when it is so difficult to scratch up funds to supply borrowers.

BIG BORROWERS ARE FAVORED.

A few days ago I talked with a Congressman who had been a loan agent in a Western State. He said that if he had a $15,000 or a $20,000 loan he could telegraph Kansas City and have a man out to look over the security the next day. Everything being found correct, the loan was approved and made at the lowest rate. He said that if he had an application for a loan of $1,000, he was obliged to wait until a dozen or 15 of them had accumulated and then an inspector would come out to look them over. Some of them he would approve and some he might turn down. The demand for these loans was not as sharp as for the large loans. A higher rate of interest was charged because greater expense was involved in inspecting the property and making the collections.

Joint-stock land banks are created for the purpose of making large loans to men who are able to take care of themselves under ordinary circumstances, and get the best rates. If you raise the interest rate on these tax-exempt bonds, you will work an injustice to the small borrower.

WHY INSURANCE COMPANIES REDUCE.

One of the witnesses in favor of this bill told you that tax exemption of securities made no difference to insurance companies because their taxes were paid on their net income. It is admitted that the majority of insurance companies have greatly reduced their annual allotment of funds for loans on farms. Tax exemption of securities is the indirect reason for this reduction.

Tax exemption has helped to cause higher rates of interest to be charged by banks and in the open market. Policyholders who in the past have borrowed money at banks for 5 per cent and 6 per cent are now compelled to pay 7 per cent and 8 per cent. They take advantage of the loan contracts which they have with the insurance companies to loan at any time at 6 per cent on the policies. The merchant who owes a few thousand dollars at the bank drawing 8 per cent obtains a loan from the insurance company on his life insurance policy at 6 per cent and pays off his bank debt. Tens of thousands of such loans are made. These policy loans reduce the available cash of the insurance companies and they are compelled to reduce the amount which they loan on farms. Tax exemption has increased the interest rate on railroad bonds, building construction bonds, and numerous other securities. The duty of insurance companies to their policyholders makes it desirable for them to invest their funds in securities that produce the larger revenues. They therefore divert a part of their investment fund from 6 per cent farm mortgages to 7 per cent and 8 per cent railroad and industrial bonds, thus further diminishing the amount available for farm mortgages. All of the leading insurance companies are continuing to loan a part of their funds on farm mortgages because of the excellent character of the security and because they desire to a reasonable extent to assist agriculture, but the first obligation of a life insurance company is to its own policyholders and stockholders and naturally they will take advantage of the opportunity to secure higher rates for their money now that tax exemption of securities has forced the rate upward. It does not require any further analysis of the situation to prove that tax exemption of securities does have a very important effect upon the amount of farm loans made by insurance companies.

SLANDERS ON THE WEST.

I protest against inaccurate and unreasonable statements made by witnesses for the joint-stock land banks which give strangers a very bad impression of the food producing West. The following from the evidence of Hon. Joseph H. Allen, president Des Moines (Iowa) Joint Stock Land Bank, is a sample:

"The five-year renewals of loans have driven more people off the farms of the United States than are now on the farms. Now, I want to emphasize this, for I believe it is true and that it can not be controverted. I repeat, that the five-year renewals of loans have driven more people off the farms of the United States than are now on the farms. Death overtakes us all. The renewal loan, when death overtakes the head of the home, in 90 out of 100 cases compels the sale of the homestead and drives the family from the farm to the small town or city."

The foregoing is quoted from his argument before the Senate Committee on Banking and Currency, May 10, 1921.

About 30,000,000 people are now on the farms of the United States. If Mr. Allen's statement is true, about 30,000,000 widows and orphans have been evicted and driven from American farm homes. If that is true, more than a million have been driven from Iowa homes. Members of this committee know that such a state of affairs has not existed in the East or South. Neither can it be truthfully said of Iowa or any other western State. In the excitement of the moment, in his great desire to continue the privilege of selling tax-free bonds to rich investors, the witness forgot that what he told the Senators would be printed.

It is very foolish and shows poor judgment for the men who want the private privilege of issuing 5½ per cent tax-free bonds to play on the sympathies of the committee by trying to make it appear that conditions in the Mississippi Valley are like those existing in Armenia, Ireland, and, during the World War, in the north of France. Neither is it true, as stated by the same witness on page 63 of the same report of Senate committee hearings of May 10:

"I dare say that 90 per cent of the banks in the agricultural sections, strictly agricultural sections, of the United States to-day are in distress."

That statement greatly exaggerates the actual conditions. It is the policy of these gentlemen to make it appear that conditions are extremely bad, in order that they may have excuses for asking special privileges for themselves at the hands of Congress. They would not publicly make these assertions to the "home folks."

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